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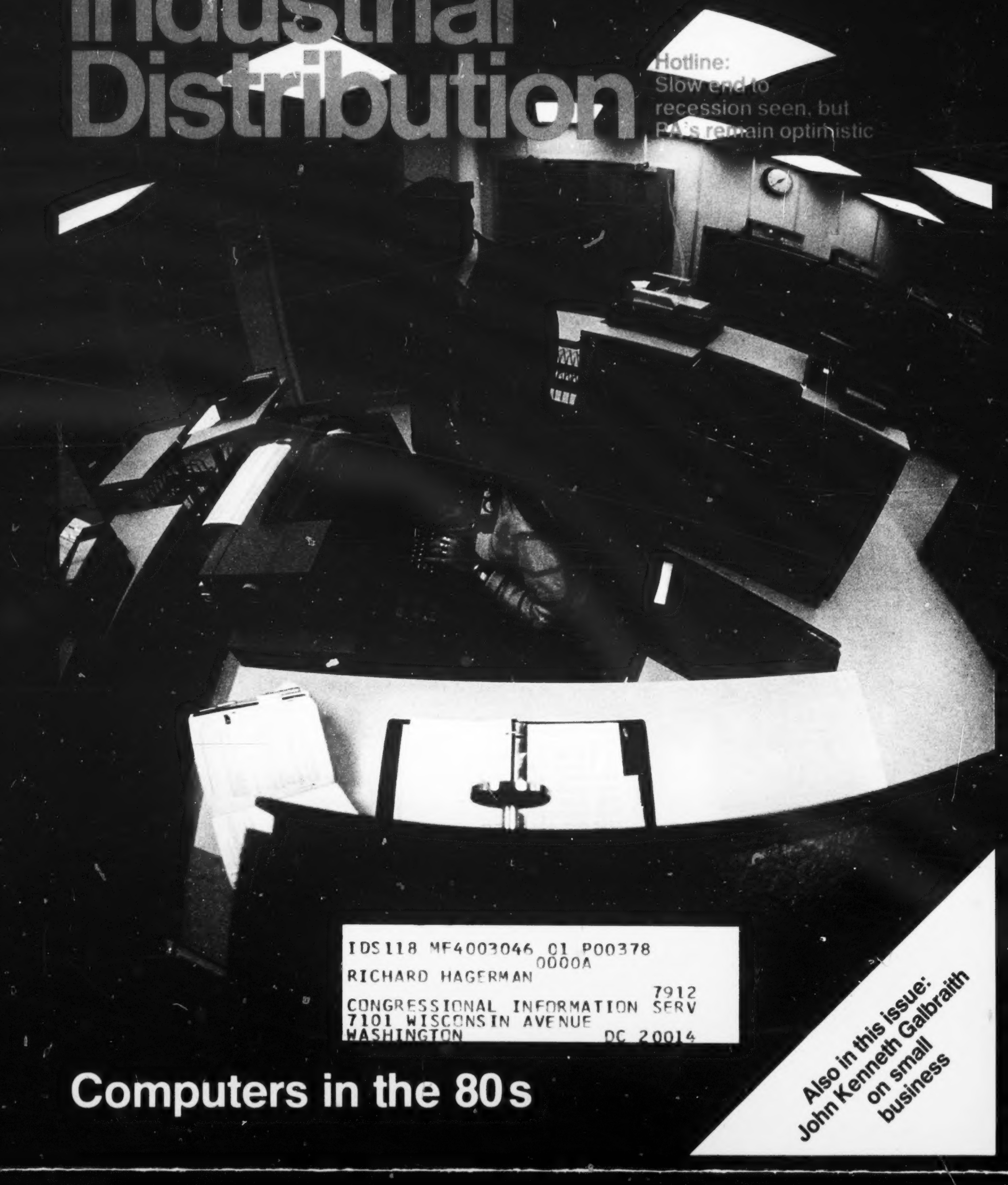
Industrial Distribution

November 1980

Hotline:
Slow end to recession seen, but PA's remain optimistic



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Computers in the 80s

Also in this issue:
John Kenneth Galbraith
on small
business

Industrial Distribution

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November 1980
Vol. 70, No. 11/70th year
A Morgan-Grampian publication

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Indicators...

Sales of industrial supplies and equipment rose in August in the midwest, west and south, but dropped in the east, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure of 134.2 put the seasonally adjusted, two-month moving average 3.1 points (2.2%) below the year-before level. . .The *NIDA-SIDA Inflation Index* for August stood at 133.2, up 0.3 points (0.2%) from July and 14.4 points (12.1%) from the year-before figure. Regional sales, comparing August to month-before and year-before levels were: east, 137.8, down 3.5% and 0.4%; midwest, 118.5, up 2.1% and down 9.5%; west, 171.1, up 4.2% and 5.9%; south, 140.9, up 2.1% and 6.4%. . .The *ASMMA New Order Index* stood at 198.6 up 1.1 points (0.6%) from July but down 61.6 points (23.6%) from August 1979. . .*FRB Durable Manufacturing Index* was at 128.4 in August, up 0.8 points. . .The *SIDA Monthly Sales Trend Report* had a 0.8% increase in July-to-August sales and a 3.4% drop in August 1979 to August 1980 sales. Sales in the first eight months of 1980 compared to the same period for 1979 had a 5.62% improvement. . .The National Welding Supply Assn.'s *Welding Supply Index* slipped in August for the fourth straight month, dropping 3.3% in August from 136.7 to 132.2. The reading is still 10% above the year-before level. . .The *Quick Pulse Index* of the National Assn. of Aluminum Distributors rose 3.2 points (2.8%) in August to 115.2, 0.6 points, (0.5%) below August 1979. . .The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 15.1 (7.4%) below July and 18.3 points (8.1%) below August 1979. . .New orders for machine tools in August totaled $222.6 million, 48% below the year-before level and 27% lower than July, according to estimates by the National Machine Tool Builders' Assn. Machine tool shipments were 8% higher in August than the year-before figure, reaching $309 million. . .Key indicators of the economy rose 1.9% in August after revised increases of 3.7% in July and 1% in June. The Commerce Dept.'s *Index of Coincident Indicators*, rose 0.2% in August. □

SBA beefs up program of management guidance

WASHINGTON—A network of Small Business Development Centers is expanding around the country to help small businessmen with their management problems and give them professional information and guidance.

The grass-roots approach to small-business problem-solving was started by the Small Business Administration. Two new centers were added this fall in Alabama and Massachusetts, bringing to 16 the number established nationally.

The SBDC program uses university systems to keep small businesses alerted to current management techniques. It operates in much the same way the U.S. Dept. of Agriculture's University Cooperative Extension Service does in educating farmers about recently developed techniques. □

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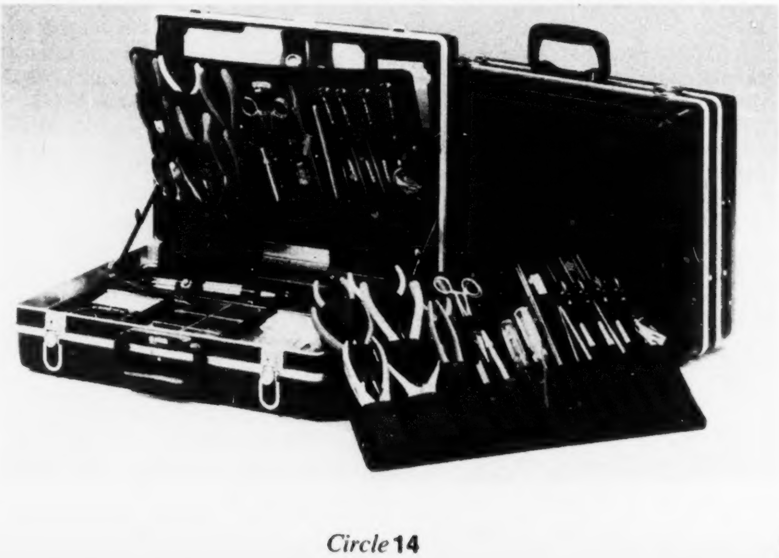


August sales took a nosedive

The recession cut more deeply into distributor sales in August than in any of the preceding months, according to *Regional Report* respondents.

Overall, sales were down 2% from July and 8% from August 1979, indicating the depth of the drops. Also, specialist respondents appeared to be worst hit — down 5% and 10%, respectively.

Regionally, the most red ink was found in the east north central states, particularly when compared to the year-before figures. Even so, the combined figures for specialists and general liners in every region but west south central showed drops in that category.

What was happening in August?

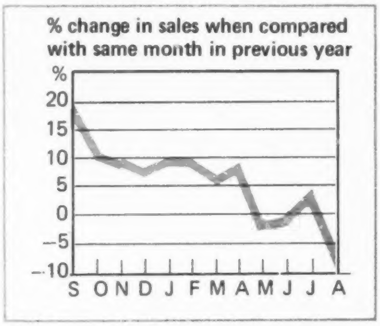
Following the announcement of July's 11.3% increase in new orders for durable goods, it appeared as if the bottom had been hit in this downturn, in terms of industrial activity.

That index had last increased in January. However, a similiar burst in new orders did not follow in August, according to the Commerce Dept. Orders actually declined 2.3%, while shipments fell by 0.1%, following July's 4.7% increase.

The outlook remains one of a slowly building economy, one with a long way to go. As a result, many distributors may be faced with lower sales, in terms of dollar volume, this year than last. □

RECEIVABLES*	August '80 Gen.	August '80 Spec.	August 79 Gen.	August 79 Spec.
New England	42.7	39.1	42.1	39.4
Middle Atlantic	40.9	40.5	38.0	43.9
South Atlantic	34.9	34.5	34.9	37.0
East North Central	40.4	41.2	37.3	37.5
East South Central	39.9	38.8	42.8	39.5
West North Central	41.6	41.8	42.0	45.8
West South Central	38.9	39.1	37.5	37.6
Mountain	43.2	40.1	47.1	41.0
Pacific	36.7	41.8	40.7	41.1
National	39.9	39.7	40.3	40.3

*Average days outstanding


% change in sales when compared with same month in previous year

Sales volume dropped to 8% below that of a year before, showing hard times prevail . . .

SALES BY REGIONS (% change)	Aug '80 vs. July '80 Gen.	Aug '80 vs. July '80 Spec.	Aug '80 vs. July '80 Both	Aug '80 vs. Aug '79 Gen.	Aug '80 vs. Aug '79 Spec.	Aug '80 vs. Aug '79 Both	8 mos. '80 vs. 8 mos.'79 Gen.	8 mos. '80 vs. 8 mos.'79 Spec.	8 mos. '80 vs. 8 mos.'79 Both
NEW ENGLAND: Conn., R.I., Mass., Vt., N.H., Me.	−6	2	3	−1	−5	−2	5	10	7
Connecticut	−12	4	−4	−3	−2	−3	1	11	6
Massachusetts	−8	−1	−4	−4	−8	−5	9	10	9
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−5	1	−2	−4	−9	−6	8	7	8
New York Metropolitan Area	1	−11	−6	5	−15	−6	11	7	9
Upstate New York	−15	−13	−14	−6	−5	−6	8	6	7
Pennsylvania	1	28	15	−9	−6	−8	3	7	5
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga., N.C., S.C., Va., W.Va.	−2	−10	−5	−10	−3	−8	5	6	5
Georgia-Florida	14	−7	3	9	−1	4	12	8	10
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	2	−8	−2	−16	−15	−16	−4	1	−2
Indiana	1	4	3	−4	−7	−6	−1	−2	−1
Wisconsin	−10	−5	−8	−22	−18	−20	6	5	6
Chicago	10	−14	−2	−13	−17	−15	−4	3	−1
Michigan	11	−16	−3	−21	−17	−19	−13	2	−7
Ohio	−4	−10	−6	−18	−18	−18	−8	−3	−7
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	7	−19	−3	−1	−28	−12	−1	2	1
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kans., Mo.	18	−9	−3	−28	−18	−22	−14	6	−4
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	3	3	3	3	17	11	11	16	14
Texas	12	2	5	6	10	9	10	5	7
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−12	−10	−11	−23	−18	−21	9	−2	4
PACIFIC: Calif., Ore., Wash.	−3	−7	−5	1	−15	−8	16	3	10
L.A.-San Diego	−11	−5	−7	5	−18	−9	28	4	14
Oregon-Washington	5	−8	−1	−2	−13	−7	5	1	3
U.S. TOTALS	−1	−5	−2	−7	−10	−8	4	4	4

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December 1980

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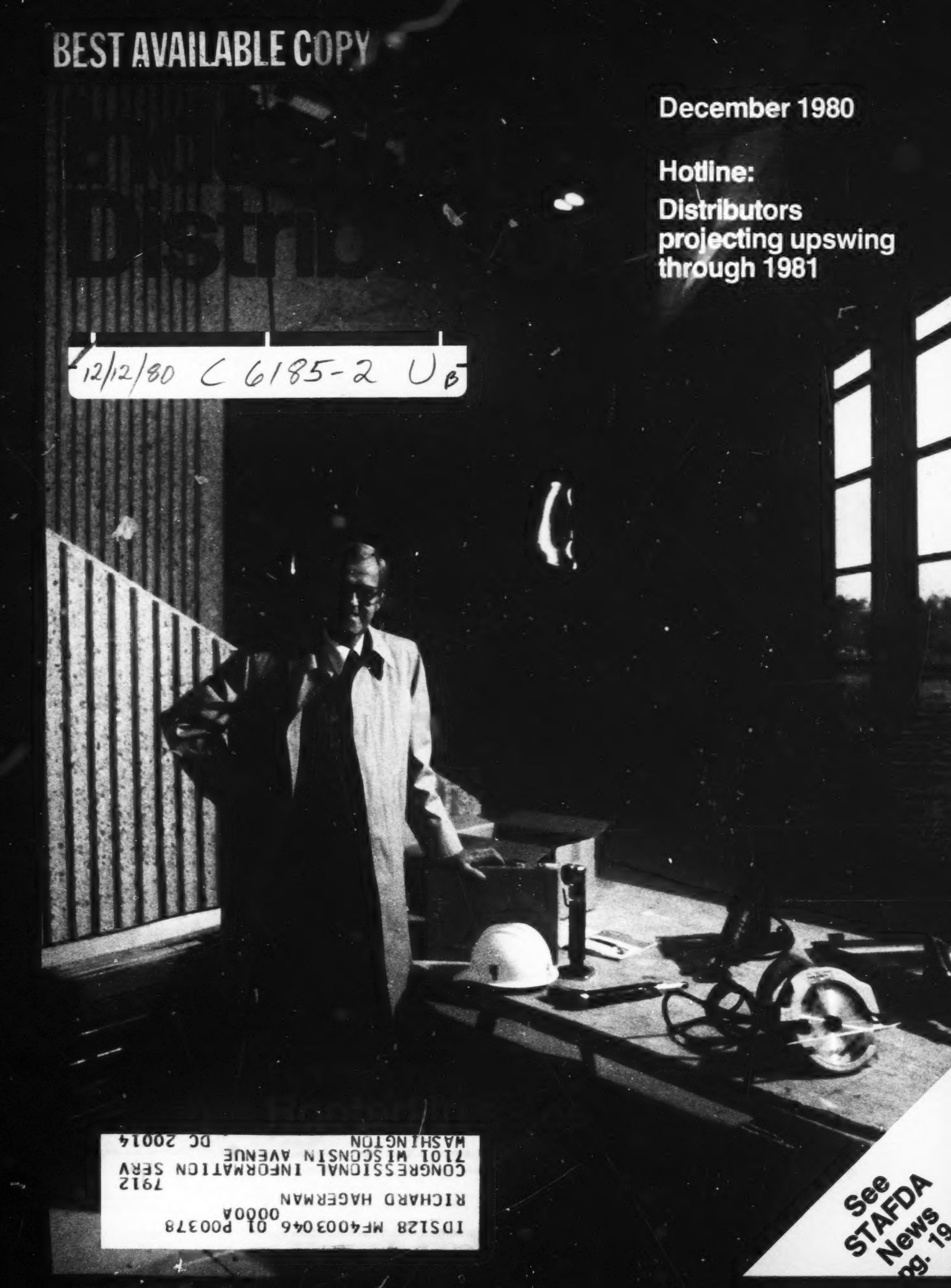

Hotline:

Distributors projecting upswing through 1981

See STAFDA News pg. 19

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STAFDA ASMMA PTDA BPA ABP

December 1980
Vol. 70, No. 11/70th year
A Morgan-Grampian publication

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Industry News

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In the midst of space-age operations, the most basic human factors—persistence, direction, sensitivity, reward—motivate the company toward a single objective: sales.

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With nearly 25% more distributors in the fold this year, STAFDA looks for increased attendance at its 1980 meeting. The focus: Presidential politics and the economy's health.

53 **Hotline/The forecast: Distributors project upswing through '81**
For the most part, it will be a matter of moving from a good year to a better one. As for the recession, it didn't turn out to be all that bad.

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Remembering a name can make the difference in selling an account. An expert on improving memory gives some tips on how to place the face.

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Indicators...

Sales of industrial supplies and equipment in September showed a decline in all areas of the country, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure of 131.4 put the seasonally adjusted, two-month moving average 2.8 points (0.2%) below August of this year. The figure is 0.3 points (0.2%) above the year-before level...The *NIDA-SIDA Inflation Index* for September was 133.9, up 0.7 points (0.5%) from August and up 14.2 points (11%) from the year-before figure. Regional sales, comparing September to month-before and year-before levels, were: east, 136.3, down 1% and up 0.2%; midwest, 115.8, down 1.9% and 6.8%; west, 166.6, down 2.6% and up 7%; south, down 2% and up 8.4%...The *ASMMA New Order Index* stood at 201, up 2.4 points (1.2%) from August but down 57.4 points (22.2%) from September 1979...The *FRB Durable Manufacturing Index* was at 130.8 in September, up 1.9 points...The *SIDA Monthly Sales Trend Report* showed an 8.3% increase in August-to-September sales and a 13.6% gain in September 1979 to September 1980 sales. Sales in the first nine months of 1980 compared to the same period for 1979 showed a 6.7% increase ...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 26.9 points (14.4%) above August and 18.8 points (9.6%) above September 1979...New orders for machine tools in September rose 31% after an August vacation slump. The monthly shipment total of $406.9 million was also 17% higher than the shipment rate during September 1979, according to estimates compiled by the National Machine Tool Builders' Assn. ...Production and new orders continue to be on the upswing, according to the National Assn. of Purchasing Management. The association's *Purchasing Managers Report on Business* shows an increase of 2% in the number of managers reporting better production and a 3% increase in the number reporting an increase in new orders when October figures are compared with September's in 1980. Some 49% say higher interest rates have led them to further reduce inventories.□

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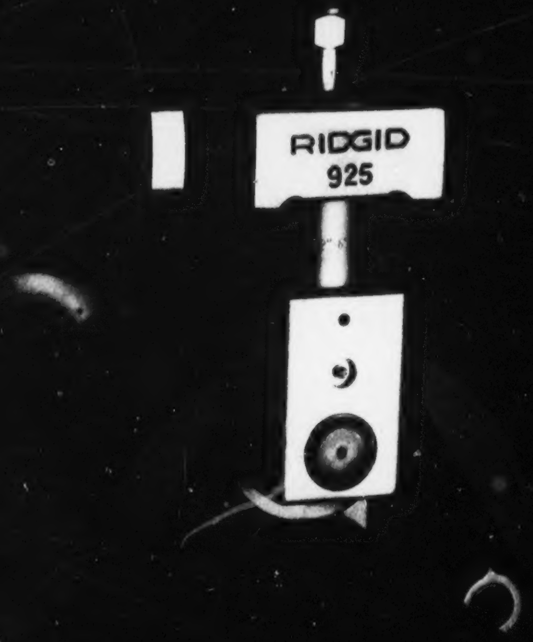

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September sales rebound sharply

Distributor sales bounced back encouragingly in September, the first climb in five months, according to *Regional Report* correspondents.

The revived sales are the strongest indication for distributors that the back of the recession has been broken and that better days lie just ahead.

Overall, sales were up 6% from August and 6% from September 1979. Specialist respondents, who had been hit the hardest in the last few months, showed the healthiest gains as their sales climbed by 8% and 10% respectively. General liners manifested more modest gains of 5% over August figures and 4% over September 1979.

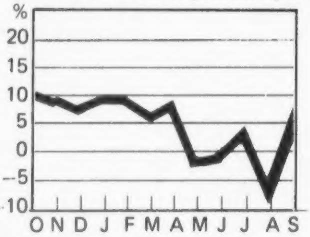
Virtually every region in the country showed an increase in sales over August. General liners chalked up gains of as much as 30% in upstate New York, while specialists soared by as much as 22% in the Mountain states.

Other economic indicators show that the upturn in sales may not be just a flash in the pan. The Commerce Dept.'s composite index of a dozen statistical barometers increased sharply in September for the fourth straight month. Analysts say it has never risen for four straight months during a recession without a recovery. □

RECEIVABLES*	**September '80**		**September '79**	
	Gen.	**Spec.**	**Gen.**	**Spec.**
New England	40.4	40.1	41.7	43.8
Middle Atlantic	39.7	44.8	39.4	45.6
South Atlantic	36.5	38.3	40.0	36.6
East North Central	37.1	37.5	40.1	37.7
East South Central	39.1	40.2	42.7	40.0
West North Central	37.6	38.7	37.5	38.1
West South Central	41.0	39.7	42.1	39.1
Mountain	39.2	39.5	40.8	39.1
Pacific	39.7	36.1	39.4	44.3
National	38.9	39.4	40.4	40.5

*Average days outstanding

% change in sales when compared with same month in previous year



After taking a nosedive, September sales spurted to 6% above the year-ago level . . .

SALES BY REGIONS (% change)	Sept '80 vs. Aug '80			Sept '80 vs. Sept '79			9 mos. '80 vs. 9 mos.'79		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Me.	7	9	8	3	15	6	7	12	9
Connecticut	7	9	8	5	8	6	2	8	5
Massachusetts	10	11	10	1	20	5	7	12	8
MIDDLE ATLANTIC: N.Y., N.J., Pa.	13	14	13	3	14	7	5	8	6
New York Metropolitan Area	10	21	16	8	11	10	7	12	10
Upstate New York	30	21	25	15	14	15	10	5	8
Pennsylvania	−2	−1	−2	−14	17	−5	−2	8	1
SOUTH ATLANTIC: Del., D.C., Md., Fla., Ga.,N.C., S.C., Va., W.Va.	7	3	5	16	16	16	10	14	12
Georgia-Florida	3	−8	−3	11	13	12	9	17	13
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	12	9	11	5	9	7	−2	3	1
Indiana	7	2	5	1	11	6	5	8	7
Wisconsin	5	−2	2	5	−11	−3	4	3	4
Chicago	22	23	22	10	33	20	4	7	5
Michigan	18	2	10	11	−4	4	−10	1	−5
Ohio	10	18	12	−1	17	4	−7	−2	−6
EAST SOUTH CENTRAL: Ala., Miss., Ky.,Tenn.	−1	16	5	1	−17	−5	1	−1	0
WEST NORTH CENTRAL: Minn., N.D.,S.D., Iowa, Neb., Kans., Mo.	2	−4	−1	−14	5	−9	−3	2	−1
WEST SOUTH CENTRAL: Ark., La.,Okla., Tex.	−1	10	4	9	24	16	9	10	9
Texas	−10	10	0	8	18	13	12	12	12
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−6	22	8	−10	8	−1	12	−8	2
PACIFIC: Calif., Ore., Wash.	−5	10	3	9	8	9	7	9	8
L.A.-San Diego	−10	10	0	14	8	11	10	9	10
Oregon-Washington	1	−5	−2	4	5	4	3	−5	−1
U.S. TOTALS	5	8	6	4	10	6	4	6	5

NOTE

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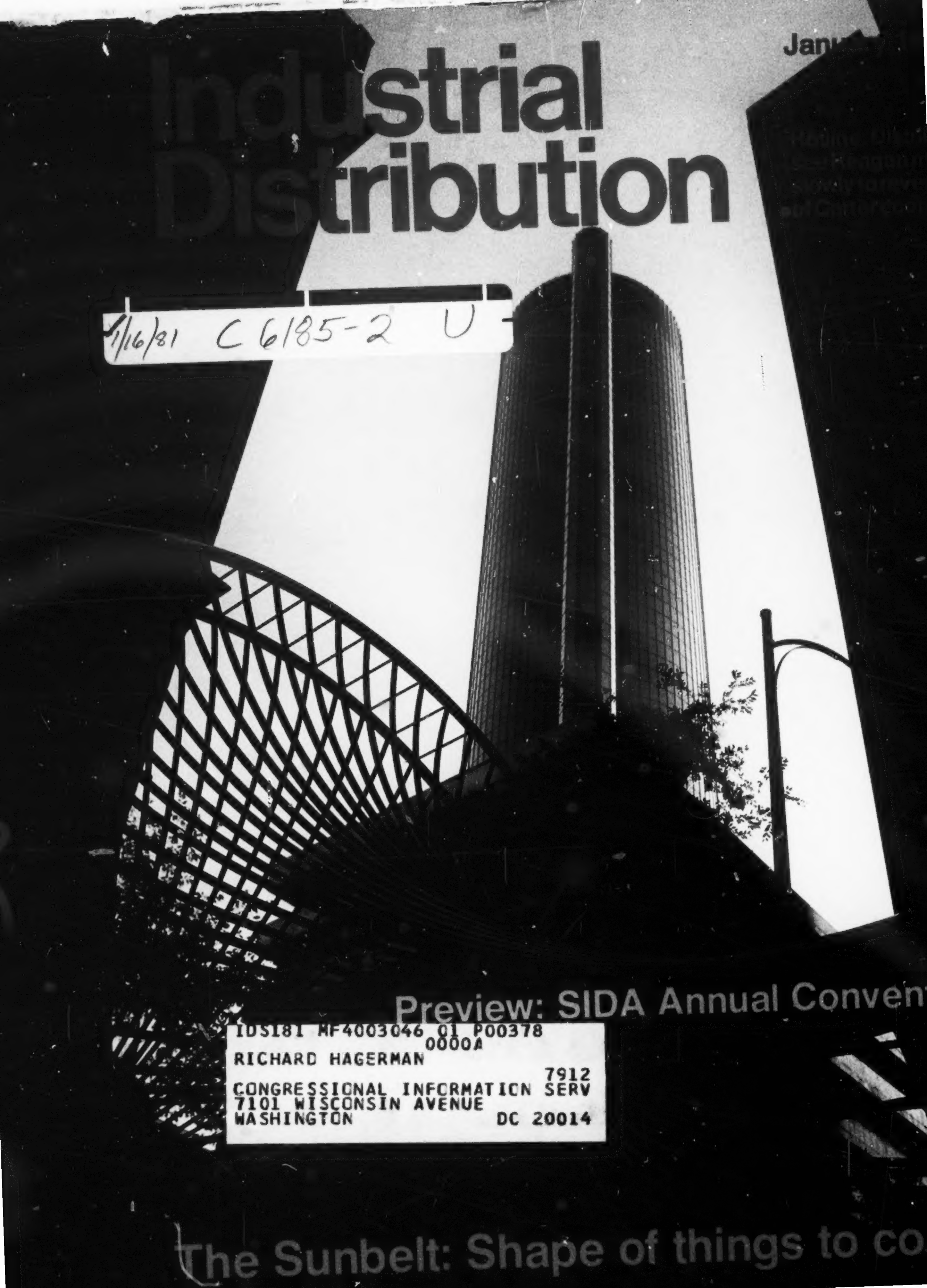

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(Cover photo by Vera Steiner.)

NIDA, SIDA win support in drive for earlier warning on price increases

NEW YORK—Prodded by the National and Southern Industrial Distributors Assns., major suppliers are reacting favorably to the idea of giving distributors more advance warning about price increases. But some of them point out that the crunch of inflation may leave them with little choice but to raise prices on short notice.

The two associations drew attention to the problem by adopting a resolution that recommends "price change information be provided to distributors at least 30 days prior to their effective date." NIDA and SIDA pointed out that distributors have had problems in updating their cost and selling price records and lost gross margins because customers were charged the old prices until the record could be updated.

The associations further recommended that price change notices "spell out in complete detail the dollar amount of price changes for every affected item." The resolution also recommended that suppliers explain the reasons for the increase.

So far the response has been good. Robert Clifton, executive vice president of NIDA, reports that he had received 20 letters from major suppliers within a month of the time that copies of the resolution and letters were sent to all major manufacturers in the American Supply and Machinery Manufacturers' Assn. Gary Buffington, executive vice president of SIDA, said his organization had received 15 letters within the same period.

"Those who answered us said that they agree totally or in part with the recommendations," said Clifton. "They say that it's something they are already doing. But some of them said that there's not much they can do about giving distributors a detailed rationale for the increases."

While no one has produced figures on the amount of income lost, several distributors at the Central States Industrial Distributors Assn.'s recent convention in Chicago estimated it represents 5% of their gross profit margin.

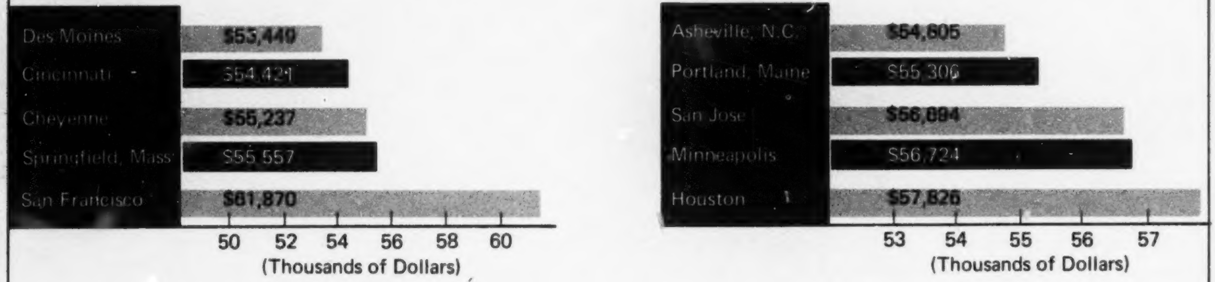
"We've mentioned the problem to suppliers, but it doesn't seem to mean a damn thing," said Arnold Klitz, president of Klitz Cutting Tools, Crystal Lake, Ill. "We've been getting price increase sheets after a price change has gone into effect. But our customers are holding us to the price that we quoted."

John Leahy, president of ASMMA, said that each manufacturer has its own set of problems and that the association has not taken a position on the recommendations by NIDA and SIDA.

Manufacturers at the convention ac-

[continued on page 24]

Total costs of keeping a typical salesman on the road in different areas of the United States. **1980**



Basis: Salary of $28,000 plus 30% payroll costs for taxes and benefits. Commission or bonus of $7,000. Business travel: 22,000 miles in 1980 in Chevy Citation, 4 cyl., throughout adjacent multi-state territory. Also included: 144 nights in first class motel, 3 meals per day in good restaurants, all gratuities, telephone expenses, entertainment (average one luncheon per week).

Source: Runzheimer Reports on Transportation.

Annual cost of keeping a salesman on road climbs to more than $50,000

ROCHESTER, WIS.—It's not hard to figure out why more distributors are leaning on Ma Bell for help in making sales calls when you consider that the annual costs of keeping a salesman on the road have jumped to more than $50,000 a year in major cities.

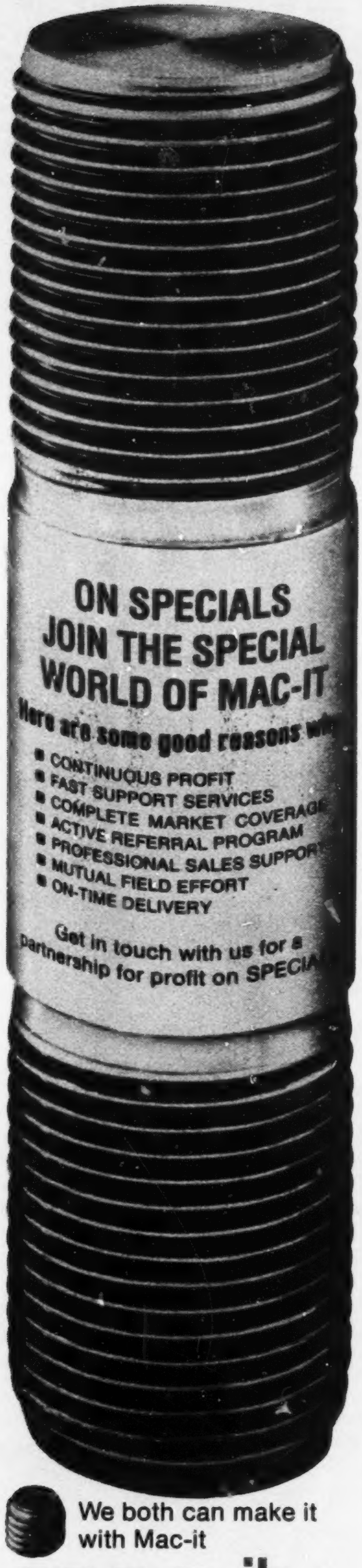
A survey of key locations around the U.S. by Runzheimer and Co. Inc., shows that meal and lodging expenses have pushed the figure to as high as $61,870 in San Francisco. While that figure may sound exorbitant, places like Cheyenne, Wyo, and Des Moines, Iowa, are not far behind. Cheyenne showed an annual cost of $55,237 and Des Moines was $53,449.

To compute the figures, Runzheimer used a salary of $28,000 plus 30% payroll costs for taxes and benefits. A commission or bonus of $7000 is also included. As a yardstick for business travel, the report used 22,000 miles in 1980 in a Chevy Citation. Also included were 144 nights in a first class motel, three meals per day in good restaurants, all gratuities, telephone expenses and entertainment.

Differences in cities reflect differences in hotel expenses. For example, the average cost of a night in Des Moines is $51.50, while in San Francisco is shot up to $98.65.

A comparison of prevailing fuel prices in the continental U.S. shows that New York is the highest, with $1.37 for full-service regular unleaded and $1.40 for diesel. Two Texas cities were the lowest. Dallas had fuel costs of $1.22 and $1.07, and Amarillo had costs of $1.23 and $1.13.□

[continued on page 12]



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Indicators...

Purchases of industrial supplies and equipment rose in October as all areas of the country showed healthy gains, according to the *NIDA-SIDA Industrial Distribution Index.* The national figure of 135.7 put the seasonally adusted, two-month moving average 4.5 points (3.4%) above the year-before level...*The NIDA-SIDA Inflation Index* for October stood at 134.6, up 0.7 points (0.5%) from September and 13.8 points (11.4%) from the year-before figure. Regional sales, comparing October to month-before and year-before levels, were: east, 141.8 up 4% and 6.4%; midwest, 118.4, up 2.2% and down 5.4%; west, up 2.3% and 9%; south, up 6% and 17.9%...The *ASMMA New Order Index* stood at 207.3, up 6.3 points (3.1%) from September but down 54.9 (20.9%) from October 1979...*FRB Durable Manufacturing Index* was at 134.6 in October, up 3.1 points...The *SIDA Monthly Sales Trend Report* showed a 12.5% increase in September-to-October sales and a 11.3% increase in October 1979 to October 1980 sales. Sales in the first 10 months of 1980 compared to the same period for 1979 showed a 7.3% improvement...The National Welding Supply Assn.'s *Welding Supply Index* rose in October by 5.2% from 145.2 to 152.8, a new record. The reading is 3.4% above the year-before level...The *Quick Pulse Index* of the National Assn. of Aluminum Distributors slipped 6.9 points (5.5%) in October to 118.5, but remained 3.7 points (3.2%) above October 1979...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 5.3 points (2.4%) below September but 0.6 points (0.2%) above October 1979...New orders for machine tools in October totaled $326.2 million, 42% below the year-before level and down 13% from their September level, according to estimates by the National Machine Tool Builders' Assn. Machine tool shipments for October were 16% ahead of the year-before figure, reaching $439.2 million...The National Assn. of Purchasing Management reports that 51% of purchasing managers feel the first quarter of 1981 will be better than the last quarter of 1980. Only 9% feel it will be worse, the association reported. □

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REGIONAL REPORT

October sales continue climb

Distributor sales continued to recover from recession in October, according to *Regional Report* correspondents.

Although sales were but 1% above October 1979 levels, October 1980 sales finished a full 10% ahead of September totals.

Every region reported an impressive sales upturn. The West North Central states led with a 17% jump. Ohio and the New York metropolitan area trailed slightly with 15% and 13% increases, respectively.

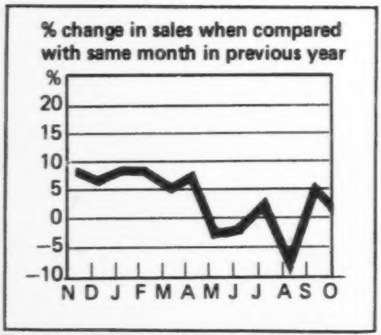
Year-to-date figures demonstrate that distributors are holding their own when compared to a year ago. The average national increase is pegged at 5%, with specialists edging out general liners.

However, a few areas still report that sales are sluggish. The heavy manufacturing centers of the East North Central and West North Central face lingering recession as sales showed drops of 3-10% for the year to date.

Sales performance for these distributors mirrors recent Dept. of Commerce figures for industrial production. DOC maintains that while month-to-month gains have been made since August, year-to-date totals remain 7.2% behind last year. □

RECEIVABLES*	October '80		October '79	
	Gen.	Spec.	Gen.	Spec.
New England	41.9	37.6	41.6	38.5
Middle Atlantic	37.9	39.0	40.1	41.3
South Atlantic	35.6	38.7	36.9	38.9
East North Central	38.5	41.3	38.4	40.1
East South Central	42.8	40.1	44.6	43.2
West North Central	41.8	38.7	42.5	39.5
West South Central	42.0	39.9	44.1	40.3
Mountain	39.3	37.2	38.0	35.3
Pacific	38.0	39.3	38.5	40.2
National	39.8	39.1	40.5	39.7

*Average days outstanding



The pace of recession recovery slows as October sales nudge year-ago level . . .

SALES BY REGIONS (% change)	Oct '80 vs. Sept '80			Oct '80 vs. Oct '79			10 mos. '80 vs. 10 mos.'79		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Me.	7	5	6	−5	8	2	8	10	8
Connecticut	2	7	4	−2	5	2	10	6	8
Massachusetts	11	8	8	−11	12	1	2	11	6
MIDDLE ATLANTIC: N.Y., N.J., Pa.	9	6	7	3	5	4	8	9	8
New York Metropolitan Area	19	8	13	15	4	9	12	8	10
Upstate New York	7	5	6	−2	7	3	13	4	8
Pennsylvania	2	3	3	−4	2	1	−2	7	3
SOUTH ATLANTIC: Del., D.C., Md.,	8	12	10	5	8	6	9	10	10
Fla., Ga.,N.C., S.C., Va., W.Va.	7	9	8	1	10	6	6	8	7
Georgia-Florida	9	15	12	8	6	7	11	12	12
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	9	9	9	−7	−8	−7	−5	−2	−3
Indiana	5	3	4	1	−3	−1	8	6	7
Wisconsin	15	10	7	−2	5	1	−4	5	1
Chicago	2	6	4	−19	−10	−15	−10	−5	−7
Michigan	8	9	8	−15	−12	−13	−11	−9	−10
Ohio	14	17	15	−1	7	−4	−7	−8	−15
EAST SOUTH CENTRAL: Ala., Miss., Ky.,Tenn.	11	9	10	6	10	8	10	7	17
WEST NORTH CENTRAL: Minn., N.D.,S.D., Iowa, Neb., Kans., Mo.	20	13	17	−21	−3	−12	−21	2	−10
WEST SOUTH CENTRAL: Ark., La.,Okla., Tex.	13	10	12	8	12	10	9	8	8
Texas		12			8			10	
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	15	12	13	9	7	8	13	9	11
PACIFIC: Calif., Ore., Wash.	15	10	12	3	6	5	7	8	7
L.A.-San Diego	13	12	12	7	11	5	11	8	10
Oregon-Washington	10	8	12	−1	8	4	3	9	6
U.S. TOTALS	11	9	10	−1	4	1	4	6	5

JANUARY 1981

Industrial Distribution

Still on the upswing, most of the states comprising the burgeoning Sunbelt are enjoying all of the fruits of growth while wading through the pressures of a gyrating economy and mounting competition. Sunbelt distributors remain optimistic, eyeing the regional metamorphosis as much a long-term opportunity as one more hurdle to success.

The Sunbelt—shape of things to come

The bandwagon bearing new industry to the Sunbelt is still blazing a hot trail through every state south of the Mason-Dixon Line.

From the frenzy of construction changing the face of Florida and the Gulf Coast to new electronic firms sprouting next to desert cactus in Arizona, the growth of the region shows no signs of slowing down from its sprint of the 70's. As differences in per capita income, cost of living and even lifestyle fade across the entire U.S., the Mason-Dixon Line is vanishing, too. It's as outmoded a symbol of regional differences as the hanging moss and stately antebellum mansions that once stood for Dixie.

Partly a state of mind, partly the product of ideal geography, the image of the Sunbelt has been fogged by misconception. Northerners tend to regard the region with awe as one vast boom territory—which it is not. Prosperity may be rising in the region as a whole, but many places are barely getting by, riddled by poverty as severe as any in the U.S. Overall, the region is solidifying the economic gains it has made in the last decade and generating more of its own growth rather than siphoning from the north. It's estimated that only 3% of new employment in the Sunbelt has crossed regional lines. As it looks to the 80's and beyond, the Sunbelt braces for the problems that its growth has spawned.

To be sure, Sunbelt distributors are profiting from the area's growth and most are anticipating more of the same through the 80's. But, as ***ID*** discovered, euphoria is tempered by uncertainty. The fact is that most see technology, migration and the economy generating new challenges to growth and survival. Even now, southern industrial distribution is undergoing a major shakedown as the smaller distributors struggle to meet a growth rate needed to stay afloat in an increasingly competitive and inflationary environment. When they don't meet the challenge, or when the struggle and the uncertainty are too overwhelming, they either fold, go downhill or, as is happening more and more in the Sunbelt, they are acquired by competitors or outsiders who see distribution as a long-term profitmaker.

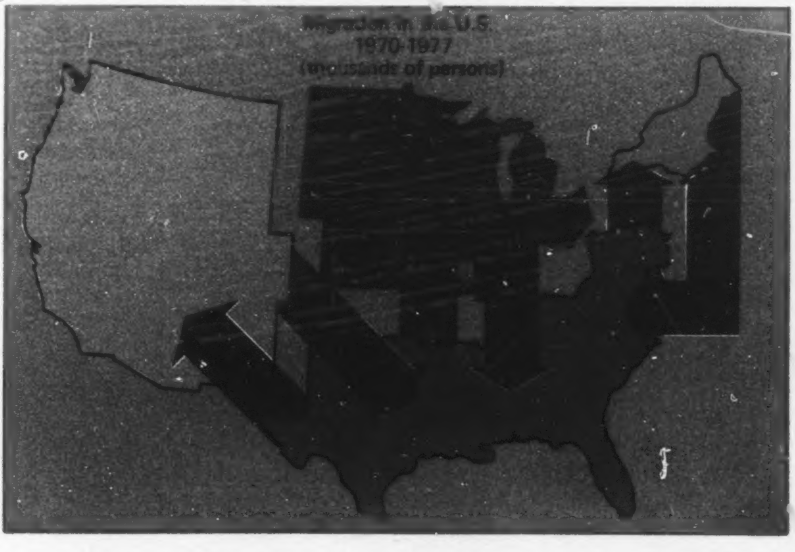
"A lot of businesses are finding it impossible to operate because of the limitations of capital," says Gary Buffington, executive vice president of the 700-member (including branches) Southern Industrial Distributors Assn. "They have to expand at 10% each year just to stay in business and many of them are no longer able to do it. The smaller ones are finding they don't have the access to the capital they need. They get to the point where the only alternative may be to sell the business. And that's what we're seeing more of in the south. One distributor acquiring another who doesn't have the

Heading south. . .

"If they come to us, it's not because we went after them."—Thomas Callan, Valley National Bank, Phoenix

"The potential for growth pushed us into the Gulf Coast area." —William Vann, Young & Vann, Birmingham, Ala.

"We expect to use these branches to do some selling to oil operations in the oil producing countries of Mexico, Venezuela and possibly Bolivia."—R.N. McMennany, Norvell Wilder Supply, Beaumont, Texas



wherewithal to grow and meet the diversity of industry, that's reshaping the south." The number of home-office locations has jumped 49.2% in the last eight years, but the growth in branch locations, an indication that existing distributorships are pursuing new markets, was nearly twice that, up by 90.5% during the same period.

Although optimism is rampant throughout the region, there are rumblings from time to time of a drying-up of investment capital. For example, *South Magazine*, a leading journal of southern business, recently suggested that the trend toward more capital investment in the south may have peaked. The magazine cited estimates that the level of investment in the region has been falling—from close to 60% of the national total in 1958 to 53% in 1980-81. That led the magazine to warn that "future capital investment in the region may be lower than expected."

Where the jobs are

The old southern economy is a skeleton of itself as new industries have taken over and effected changes in the service industries. Textiles, furniture, lumber and wood, food processing and apparel, once the bellwethers based on low wages and intensive labor, are fading fast. They have been replaced by nonelectrical machinery, electrical equipment, chemicals, rubber and plastics.

By far the leading industry in generating employment is nonelectrical machinery, which gained more than 100,000 jobs from 1972 to 1977. The manufacture of electrical equipment added another 52,500 jobs, while rubber and plastics accounted for more than 47,000. In contrast, the textile industry lost more than 28,000 jobs while lumber and wood declined by 12,100, and apparel gained 17,900.

These momentous changes have meant that southern distributors had to adjust their lines by eliminating items that are no longer profitable because of the shakeup in industrial composition. In some cases, they've added new lines to serve the burgeoning petrochemical plants on the Gulf Coast, the high technology firms surrounding Austin and the Research Triangle Park in North Carolina. "They've had to make hard-nosed decisions about their inventories," says Buffington. "The problem with some distributors is that they fall in love with their inventory. They wind up stocking items they're no longer able to sell."

Changes in the Sunbelt's employment makeup are reflected in figures from the Southern Growth Policies Board, an agency based in Research Triangle Park. It was formed by the legislatures in 14 southern states. As of 1979, manufacturing, with 22.4% of the total nonagricultural employment, was replaced by trade (22.8%) as the leading area of employment. This growth has led some economic observers to predict that the Sunbelt's future development will be based on a "post-industrial service economy," with manufacturing and other goods producing sectors declining, according to Evan Brunson, director of intergovernmental affairs at the board.

From 1970 to 1979, nonagricultural employment increased by a whopping 7.8 million. Employment in wholesale and retail trade increased by 2 million (52.8%), service jobs grew by 1.7 million (64.9%) and government jobs increased by 1.2 million (32.1%). However, manufacturing employment increased by 1 million, a fairly modest gain of 21.3%.

Growth from within

A few years ago, the Sunbelt earned a reputation for pirating industry from the north. But that notion is as old as yesterday's prime rate. Most of the new growth is indigenous as northern companies open branches in the south or expand existing operations. For example, Bristol Myers, Union Carbide, General Electric and Data General are prime examples of corporations that have maintained their northern headquarters but have opened branches in North Carolina in the Research Triangle Park, a development between Raleigh and Durham that has been compared to Silicon Valley in northern California. Although Sunbelt states have been aggressive in pushing special inducements like tax holidays and governmental financial aid, the effectiveness of these devices is apparently limited. Some executives say they tend to pass up such communities that want to sweeten the pot, figuring that such incentives will only hide the shortcomings that could come back to haunt them. It's not the hoopla thrown out by the local chambers of commerce that lures them but lower costs, a willing and productive labor force and raw materials—abundant water in the southeast and gas and oil in the Gulf states.

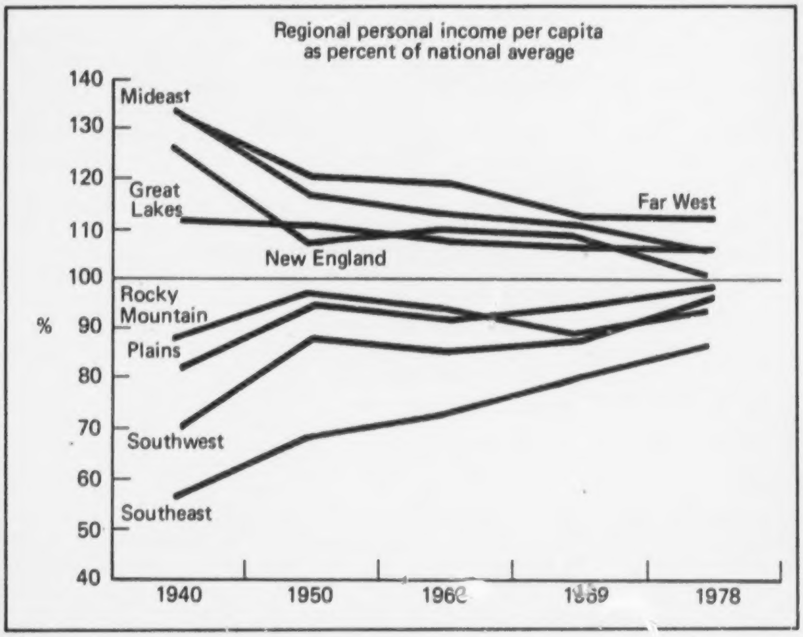
"If they come to us, it's not because we went after them," says Thomas Callan, vice president of the industrial development department at the Valley National Bank, Phoenix. The

Value added by manufacturing in 14 Sunbelt states 1972-1977
(in millions of $)

State	1972	1977	% change
Alabama	$5064.8	$8348.7	64.8
Arkansas	2779.8	4865.0	75.0
Florida	5786.8	9332.1	61.3
Georgia	7385.8	12,449.7	69.2
Kentucky	5682.1	9440.1	66.1
Louisiana	4273.4	9503.1	122.4
Mississippi	2824.7	5598.5	98.2
North Carolina	11,014.5	18,105.6	64.4
Oklahoma	2270.1	4650.7	104.9
South Carolina	4965.6	8095.4	63.0
Tennessee	7662.0	12,635.0	64.9
Texas	15,228.0	32,922.9	116.2
Virginia	6117.5	10,765.4	74.3
West Virginia	2646.7	3908.1	47.7
Total	83,761.8	150,670.3	79.9
U.S.	353,974.2	586,023.1	65.6

Employment in manufacturing in 14 Sunbelt states
(thousands of employees)
No. of employees

State	1970	1979	% change
Alabama	327.2	374.5	14.5
Arkansas	168.6	216.9	28.6
Florida	322.5	437.7	35.7
Georgia	467.1	527.2	12.8
Kentucky	255.2	295.2	15.7
Louisiana	179.0	213.3	19.2
Mississippi	182.1	235.2	29.2
North Carolina	713.0	824.2	15.6
Oklahoma	134.1	183.3	36.7
South Carolina	340.3	399.3	17.3
Tennessee	463.8	529.4	14.1
Texas	734.3	1022.5	39.2
Virginia	366.0	413.1	12.9
West Virginia	126.5	126.0	−0.4
Total	4768.7	57[illegible].8	21.3



Why Sunbelt? Red hot growth area, says Jim Jenkins, Hollis & Co., Little Rock.

companies expanding operations in Phoenix and Tucson read like a *Who's Who in Electronics*—Sperry Rand, IBM, Honeywell, Digital and Intel.

"There's a good labor force, the lifestyle is super and housing is still in good supply and can be had at affordable prices. While the unskilled segment of our labor force raises some questions in the minds of northern industries, it still hasn't deterred them from moving here," adds Callan.

The hottest growth areas are still Florida and Texas, both of which appear to be unfazed by the recession because of their boom economies. Elsewhere, the growth is more dispersed in suburban and rural communities near big markets like Atlanta, Raleigh-Durham, Greensboro, Spartanburg, and Little Rock.

On the move

What does all the growth mean for distributors? One way they have been adjusting is by specializing more and by expanding, either through acquisition or new branch locations.

Typical of that trend is Young and Vann, a 75-year-old general liner in Birmingham, Ala. It grew in the 70's through a major acquisition of a company on the Gulf coast that enhanced its ability to serve a new area. Young and Vann has seven locations in Alabama with an inventory in cutting tools, abrasives, power transmission, material handling components and systems, pneumatics, pumps, and general supplies. The expansion has whetted the company's appetite for another acquisition, but the right opportunity hasn't yet come along, according to president William Vann.

For Vann, a distributor's survival in the 80's will depend on his ability to acquire. "The question is whether the small people—and by that I mean anyone doing under $5 million a year in sales—can survive. I don't see how they can. They won't have the resources, the financial wherewithal, the expertise in data processing, management and people development. They can't select or recruit the top people. After a while, their costs will eat them up. Their market share will drop. Increasingly, these distributors will be bought out by other distributors. After all, you may own 100% of your company, but it's not so great to be a heartbeat away from disaster."

Young and Vann, which has a sales volume of more than $20 million a year, purchased the SI Supply Co. in 1976. SI had locations in Mobile and New Orleans and Young and Vann went in for "purely geographic market considerations." The company wasn't ready to expand, says Vann, but felt compelled to so that it could take advantage of the location of the two Gulf port cities that Young and Vann sensed offered an important competitive edge. "We weren't geared up to handle this additional business and it created a hell of a lot of pressure on us to get our house in order. But without that pressure we'd maybe be three years away from where we are now." Young and Vann has coped with the pressure by installing an EDP system that gave it the control over purchasing and inventory that it lacked.

"The potential for growth pushed us into the Gulf coast," says Vann. "There's tremendous potential for supplying companies in the energy fields, marine industries, on the docks, the paper industries and the mills." As a result, he says, the company has streamlined its inventory, purging lines that were out of step with the new markets that the company hit harder. "We're not trying to be all things to all people. We're trying to define the markets that we want—forest products, foundry, cement, marine on the Gulf coast paper and chemical plants. The area we serve in Birmingham, meanwhile, is switching more to a service type of environment. There have been tremendous layoffs at U.S. Steel and instead of that as a big growth sector we've got insurance companies and banks galore. The biggest employer in Birmingham is the University of Alabama. We had to expand to serve new markets because the ones we were dependent on were not expanding due to government regulations and a lack of incentives."

Less than a mile away, another distributor is looking at the Alabama map and zeroing in on a possible acquisition. Star Hardware & Supply Co. has never acquired another distributor but the company may decide to reverse its strategy because of a market area it wants to penetrate more deeply.

Bert Bloomston, president of Star Hardware, agrees with Vann's assessment of what could happen to smaller distributors in the next decade. "You're going to see more industrial supply operations go by the wayside and we'll see more larger distributors coming and buying them up. By small, I mean distributors in the $2-million to $3-million range. It's tough to make a profit these days and if you don't have the buying power to make that profit, you're going to have to take another direction. Most likely that's going to be a sellout. Despite this shakedown in the industry, I don't see the family-owned businesses selling out. Actually, I see them growing stronger."

With five locations around the state, Star is moving toward an acquisition because Bloomston has identified a market "that we should be into." He declined to discuss the acquisition further because negotiations are still sensitive. Why an acquisition? "If we were people-rich, we would open up a branch tomorrow. But like many managements in industrial distribution, we are people-poor. By acquisition, it's easier to pick up the people we need. You don't have to penetrate the market because someone else has done it for you. Of course, there are disadvantages, too. It's more expensive to acquire. You're purchasing something like good-will—and who knows how much that's worth?"

Despite the slump in the Birmingham economy caused by a plunge in auto sales and a drop in orders for steel, Bloomston is upbeat about the 80's. He envisions more automotive assembly plants trekking south for cheaper labor and tax advantages and with the Reagan Administration, a relaxation of environmental regulations that have hamstrung industry. "I see good, basic heavy industry coming south. We're going to see a resurgence in the steel and the steel pipe industry."

Strategies for acquisition

Knowing how to scout the terrain for an acquisition is as important as hammering out the details of a purchase. Without a well-developed game plan that focuses on what to look for, a distributor could embark on a fruitless fishing expedition. Fulton Supply Co., Atlanta, didn't make that mistake when it grew in 1970 by adding a branch in Columbus, Ga., 180 miles away. But the situation for Fulton was tailor-made for expansion, since the personnel in Columbus were ready to break away from a distributor and start their own company. Instead of purchasing the distributor, Fulton rented a building and made an offer the former employees couldn't refuse. Fulton stocked the building with its own inventory of cutting tools, abrasives, power tools, machine tools and material handling equipment.

As president, Win Leadingham is the third generation of his family to be managing the business. He views the need to expand—either through opening a branch or acquiring—as something that has been forced on distributors by the inflation rate. "It's the nature of the economy. Either you do it or you're not able to survive. It's not a question of our trying to gobble up every distributor in sight. We don't want to do that."

Leadingham says Fulton is "wrestling with the idea of acquiring but leans more toward the idea of opening a branch because we'd prefer to start with out own people and our own way of doing things." Before considering an expansion, Fulton conducts its own marketing study to determine the strength of an area in which it has interest. "We look at the Georgia manufacturing directory and pick out the parts that represent the highest volume of sales for us. We talk with our customers and find out which distributors are doing a good business and which ones are not. Through mutual contacts, we discover if there's any basis for getting together with a distributor whom we might want to acquire."

A branch operation was opened by the company in 1979 in Carrollton, 50 miles from Atlanta. By 1982, the branch will be generating $2 million in sales—the volume that Leadingham believes the company needs to justify the assets it has tied up and the investment required for a branch location. "On the average, one salesman can do $500,000 worth of business. Based on that, there's no point in opening a branch if you don't have three or four salesmen. It wouldn't be profitable enough for us otherwise."

Fulton will double its $17-million sales volume by 1985, says Leadingham. "You've got to double your volume every five years just to keep ahead of inflation." While Leadingham acknowledged that "another branch is definitely in our plans," he declined to discuss how the company would achieve that goal, other than pointing out: "The distributor who makes himself available to us is the one we wouldn't want because he wants to be bailed out. All you're doing is inheriting his problems."

While companies like Fulton have confined their growth to their home states, Hollis & Co., Little Rock, Ark., is sprawling over the entire Sunbelt. Recognized as the forerunner in the trend toward expansion, Hollis expects to open its 24th branch early this year when it begins operating in northern Florida. The company's holdings include distributorships in Georgia, Mississippi, South Carolina, Louisiana, Texas, Wyoming, New Mexico and Arizona.

Purchasing leverage

"We have bought either good, viable companies or companies with a hot growth potential that had not been realized," says Jim Jenkins, Hollis' president. "By turning a number of small companies into one big organization, you have the tremendous leverage of purchasing economically and also of getting in touch with the best suppliers. As a general line operation, or series of operations, we have many excellent suppliers who obviously pay attention when we speak." With its size and purchasing clout, Hollis exerts the leverage that a smaller company can't.

Jenkins adds that the company has a good track record for turning distributorships that had not hit their growth potential into successful enterprises. "We intend to keep going in that direction. We are also looking at some operations overseas. When it comes to acquisition, the first thing we look at is personnel. People are our biggest asset, so when we buy a company, we try to keep as many of the personnel as we can.

Slump still grips midwest...

"What recession?" asks the editor of a Florida business magazine. "People here hardly know one is going on."

While the boom economies in Florida and Texas have left these areas virtually unscathed by the slump that gripped the midwest and northeast like a bear trap, the unemployed in the nation's heartland are unsuccessfully trying to come in from the cold.

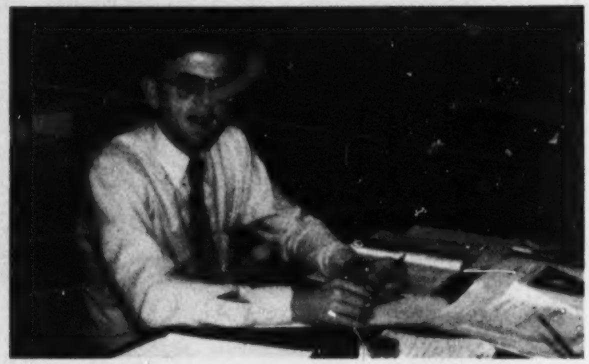
A rebound in economic activity during late summer and early fall apparently raised false hopes among the masses of laid-off workers attempting to return to a job market in the midwest. When many of them tried, they discovered that manufacturing jobs that existed before the recession have disappeared.

After falling for two consecutive months, the jobless rate in Illinois crept from 8.8% to 9.2% in October. Michigan fared worse. Its rate skipped from 12.7% to 13.4%.

Because these states have expensive unemployment-compensation and worker-compensation insurance, the region's labor costs can't compete with those of the south and southwest. Meanwhile, jobs have vanished as companies switch to labor-saving technologies such as the robot welders at the General Motors plant in Lordstown, Ohio.

The slow rate of recovery in the region's basic industries—automobiles, steel, construction and farm equipment—has state officials worried that the record unemployment may be around for a long time.

Opportunity. 'We're going to see a resurgence in the steel and the steel pipe industry.'—Bloomston



Survival. 'After all, you may own 100% of your company but it's not so great to be a heartbeat away from disaster.'—Vann

Acquisition. 'It's the nature of the economy. Either you do it or you're not able to survive.'—Leadingham

Finance. 'A lot of businesses are finding it impossible to operate because of the limitations of capital.'—Buffington

> *"Historically, the most dynamic investment sector in the southern economy has been industry and much of the region's industrial growth has been financed by capital from outside the region. These inflows of capital represent direct investments in property, plant and equipment, and they have been drawn to the Sunbelt in the form of loans and purchases of debt and equities securities."*
>
> **—Southern Growth Policies Board**

We have let very few of them go. In some cases, however, we put in our own managers."

Hollis confined its growth to the Sunbelt for two reasons. It wanted to open branches near the red-hot growth areas and, secondly, did not want to stretch its lines of communications too far. It expanded in the western states because of the growth potential in coal deposits.

Farther south, another company has built a fistful of locations in Texas and Louisiana and is hungry for more acquisition. Norvell Wilder Supply Co. divides its headquarters between Houston and Beaumont, Texas, and has 17 locations in the two states. R.N. McMennany, president, and his sales and management team are in Houston, but Beaumont houses the administrative offices, which handle purchasing, accounting, personnel and credit.

The general line distributors in the Norvell Wilder chain chalk up sales of some $65 million a year. Fourteen of the companies operate under the tradename of Norvell Wilder and three under Pelican Supply Co., a group that the firm bought in 1979. "Pelican, a successful group, wanted to sell because its management-ownership was reaching retirement age," says McMennany. "They wanted to sell for cash. We had the money and the top management to offer and Pelican had good local management, most of which is still with us."

In following a five-year plan, the company is studying two new branches to be opened in 1981. "They will be somewhere in the same areas we now serve," says McMennany. "We expect to use these branches to do some selling to oil operations in the oil producing countries of Mexico, Venezuela, and possibly Bolivia. These countries, with their wealth of petroleum, will be building refineries, and we intend to sell them as well as serve our own burgeoning area from these same branches that we add on. At the same time, we are locating in the Sunbelt because we know that certain segments of southern Texas will have great industrial development within the next few years."

The rock-ribbed faith that distributors like McMennany voice in the region's future is backed by figures that show phenomenal growth rates—as high as a 24% population surge in Florida, for example in the 70's. Every state south of Mason-Dixon is a leg up on the national average of 6.4%. While the figures provide plenty of reasons to feel rosy about the economic potential, they often camouflage problems that remain to be solved.

As the Sunbelt becomes more like the rest of the nation, can it avoid the social problems, the welfare loads and urban crime that have all but devastated cities in the northeast? Will its economy become more prone to the cycles of recession that have rocked states like car-oriented Michigan? Can it provide social services without hiking property taxes to exorbitant levels? Can it preserve the quality of life that has made it so attractive, or will it be overtaken by the urban sprawl that chokes much of the nation?

As distributors ride the crest of Sunbelt growth, they face challenges in their businesses that are as tough as the decisions being made by regional planners and state officials. They, too, are racked by growing pains, feeling the pressure to expand, either by acquisition or by opening a new branch. Despite the hardships, they probably wouldn't want to be doing business anywhere else. They are convinced that their prospects couldn't be better. □

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Tight money seen
new wave spawning
of acquisitions

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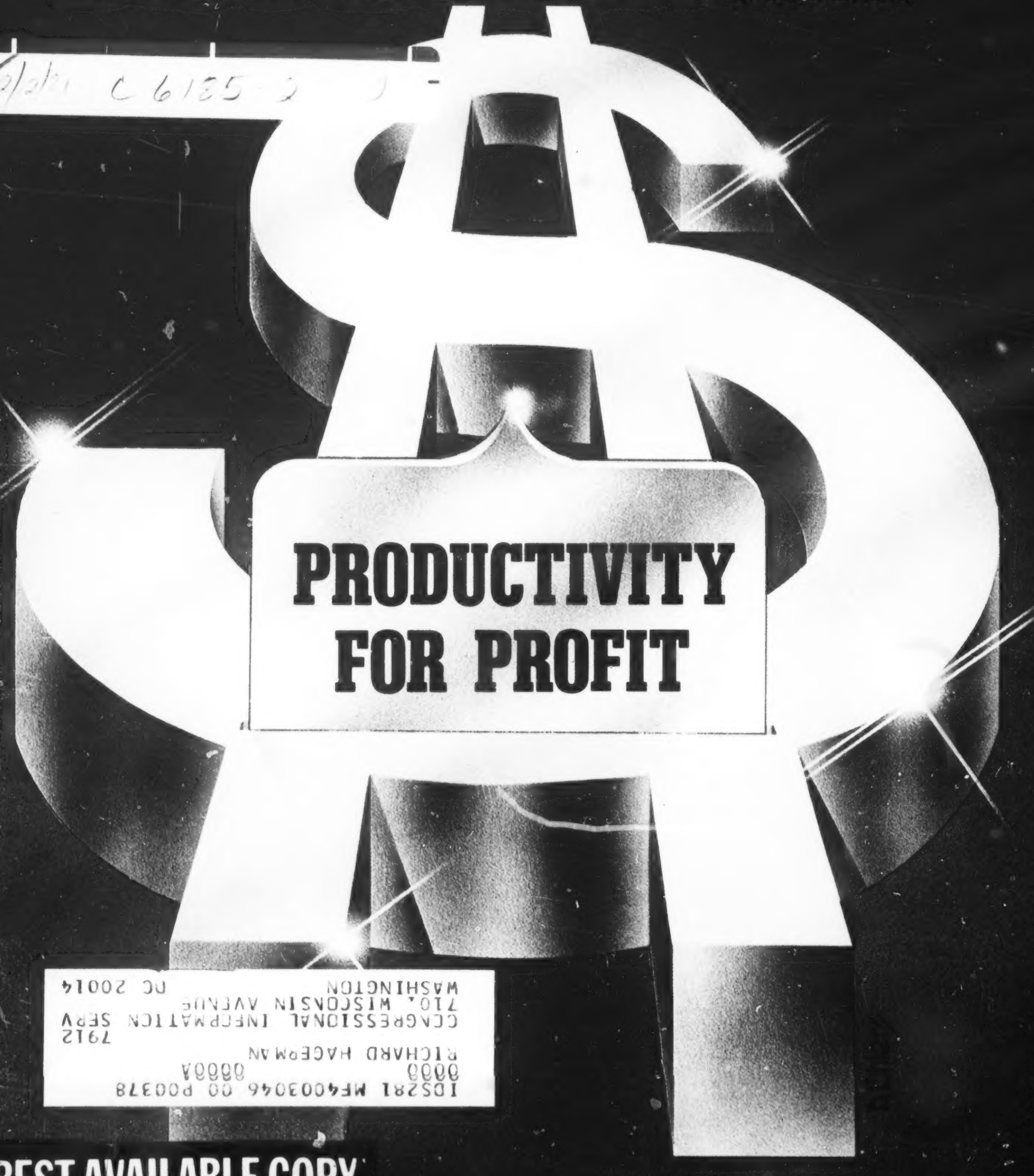

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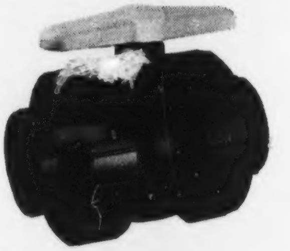

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Indicators. . .

Sales of industrial supplies and equipment in November showed a decline in all areas of the country, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure of 132.7 put the seasonally adjusted, two-month moving average 3 points (2.2%) below that of October 1980. The figure is also 3 points (2.2%) below the year-before level. . .*The NIDA-SIDA Inflation Index* for November was 135.3, up 0.7 points (0.5%) from October and 13.6 points (11.1%) from the year-before level. Regional sales, comparing November to month-before and year-before levels, were: east, 136.2, down 3.9% and 2.2%; midwest, 115.4, down 2.5% and 10.9%; west, 168.9, down 0.9% and up 5.6%; south 144, down 1.6% and up 12.4%. . .The *ASMMA New Order Index* stood at 219.1, up 11.8 points (5.7%) from October but down 39.2 points (15.1%) from November 1979. . .The *FRB Durable Manufacturers Index* reached 137.8 in November, up 3.5 points . . .The *SIDA Monthly Sales Trend Report* showed a 14.7% drop in November-to-October sales and a 3.9% increase in November 1979 to November 1980 sales. Sales in the first 11 months of 1980 compared to the same period fo 1979 showed a 5.3% increase. . .The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 9.1 points (4.3%) below October's and 10.9 points (5.1%) below November 1979's. . .New orders for machine tools in November totaled $398.4 million, 9% below those of October, but 10% above the year-ago level, according to estimates compiled by the National Machine Tool Builders' Assn.. . .The National Welding Supply Assn.'s *Welding Supply Index* slipped to 134.8 in November, down sharply from October's record 152.8. . .Economic recovery lost some of its steam, according to a report from the Business Survey Committee of the National Assn. of Purchasing Management. It disclosed a 10% increase in the number of purchasing managers who reported higher inventories . . .The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 114.5 in November, down 4 points (3.3%) from October's and 7.2 points (5.9%) from that of the year before.□

November sales drop sharply

Plummeting sales marked November as one of the worst distributor sales months of the year, according to *Regional Report* correspondents.

Year-to-date totals continue to run above 1979 levels, but the month-to-month gains of September and October were largely wiped out by sluggish, lagging sales.

Hardest hit were the East South Central states, which posted 39% losses compared to the previous month. Following close on their heels were the Chicago metropolitan area and Massachusetts, each checking in at 38% below October levels.

Only metropolitan New York showed a November sales increase—3%.

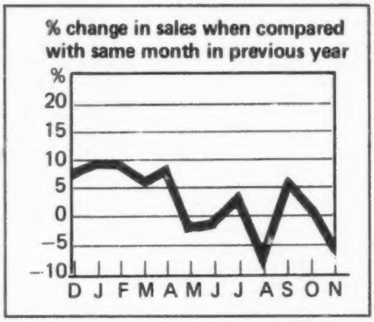
Yet for all the bad news, 1980 year-to-date sales remained above 1979 totals, with an average climb of 6% nationwide.

Specialty distributors lead the way with a 10% surge. Only recession-plagued Michigan, Ohio and the West North Central states reported losses.

Soaring interest rates and flagging factory output are largely responsible. Dept. of Commerce figures indicate that the total value of factory shipments for November rose only 1% over October's, a gain negated by current double-digit inflation.☐

RECEIVABLES*	Nov. 1980 Gen.	Nov. 1980 Spec.	Nov. 1979 Gen.	Nov. 1979 Spec.
New England	47.0	43.2	47.5	45.3
Middle Atlantic	42.4	43.7	39.4	44.9
South Atlantic	39.9	36.0	38.2	34.0
East North Central	40.1	47.1	40.7	45.6
East South Central	41.8	42.6	47.0	41.8
West North Central	40.0	41.1	39.0	38.2
West South Central	49.0	42.3	44.0	37.0
Mountain	48.9	47.2	43.9	41.0
Pacific	36.4	40.5	35.0	44.0
National	42.8	42.6	41.6	41.3

*Average days outstanding



Sales fall below year-ago levels as inflation and credit crunch worsen . . .

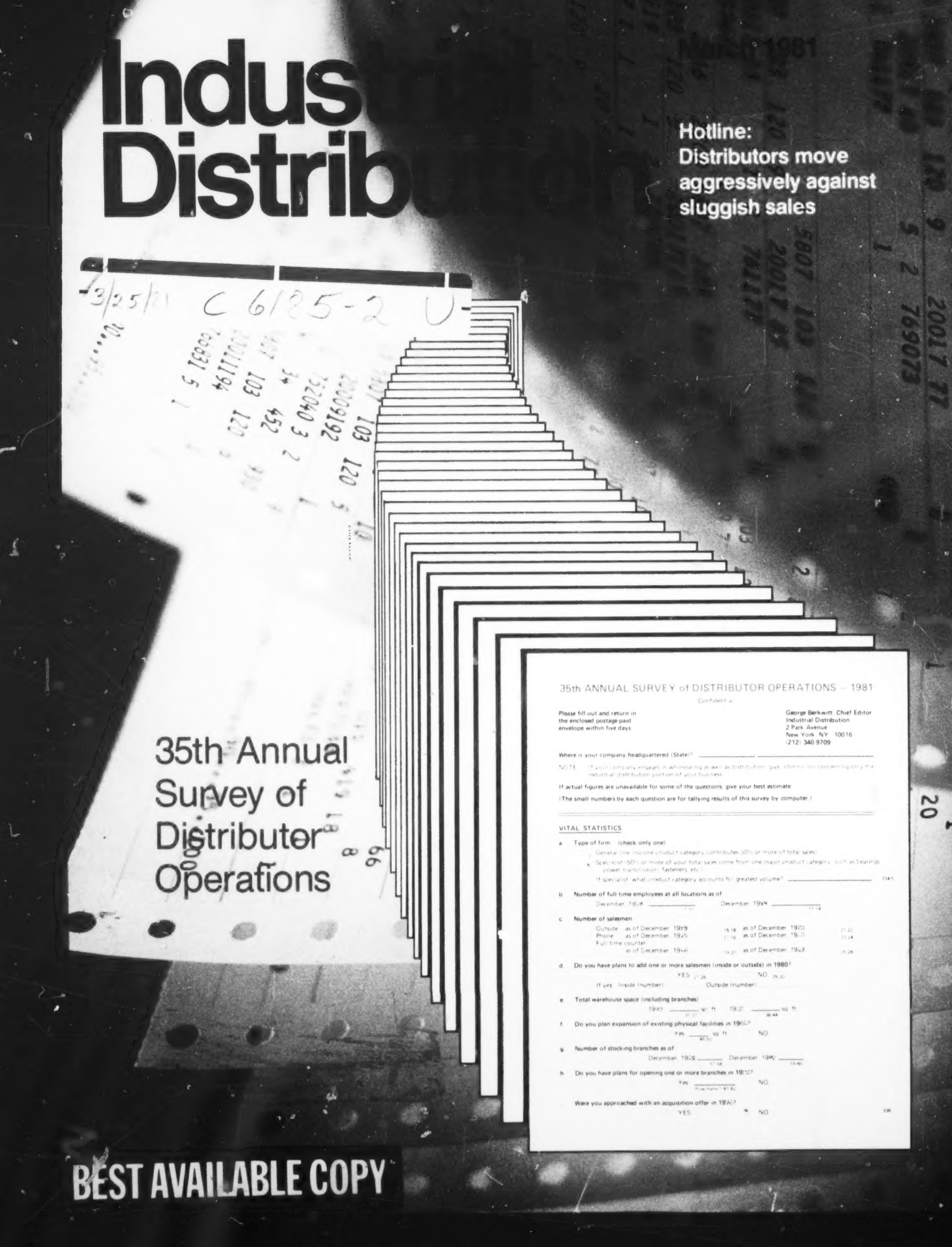
SALES BY REGIONS (% change)	Nov. '80 vs. Oct. '80			Nov. '80 vs. Nov. '79			11 mos. '80 vs. 11 mos. '79		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., Vt., N.H., Me.	−19	−35	−24	8	− 8	3	8	9	8
Connecticut	−14	− 4	−11	8	−20	− 1	14	−14	5
Massachusetts	−19	−77	−38	− 8	13	2	4	12	7
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−13	− 9	−11	− 5	2	2	4	10	7
New York Metropolitan Area	6	1	3	12	16	14	14	15	15
Upstate New York	−25	−35	−30	9	10	0	17	7	10
Pennsylvania	−19	−18	−19	− 6	− 9	− 7	− 4	5	1
SOUTH ATLANTIC: Del., D.C., Md.,	− 5	−24	−16	2	− 4	− 2	− 2	10	5
Fla., Ga., N.C., S.C., Va., W.Va.	−16	−14	−14	−16	22	9	− 4	11	6
Georgia-Florida	− 4	−30	−17	21	− 6	8	10	10	10
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	−22	−10	−17	−13	−13	−13	6	− 1	3
Indiana	−25	−42	−34	−11	−43	−27	− 2	21	10
Wisconsin	−30	−10	−17	−13	− 7	− 9	1	2	1
Chicago	−31	−44	−38	− 2	−40	−21	13	6	10
Michigan	−10	0	− 3	−13	−37	−19	−13	− 8	−12
Ohio	−30	− 5	−24	−17	− 1	−13	− 7	− 2	− 6
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	−28	−30	−39	−20	−24	−21	− 1	4	1
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kans., Mo.	−31	−23	−25	−49	−24	−40	−25	2	− 5
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	−21	− 7	−14	−15	19	2	− 8	29	11
Texas		−30			− 7			−15	
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−15	−20	−17	3	− 2	1	5	7	6
PACIFIC: Calif., Ore., Wash.	−15	−16	−16	−12	0	− 1	2	10	6
L.A.-San Diego	−18	−17	−18	− 9	−10	−10	5	6	6
Oregon-Washington	−14	−15	−15	−13	0	− 1	0	7	1
U.S. TOTALS	−17	−15	−17	− 8	− 3	− 5	3	10	6

Indus
Distrib

March 1981

Hotline: Distributors move aggressively against sluggish sales

35th Annual Survey of Distributor Operations



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George Berkwitt, Chief Editor
Industrial Distribution
2 Park Avenue
New York, NY 10016
(212) 340 9709

Where is your company headquartered (State)? ______________

NOTE: If your company engages in wholesaling as well as distribution, give information concerning only the industrial distribution portion of your business.

If actual figures are unavailable for some of the questions, give your best estimate.

(The small numbers by each question are for tallying results of this survey by computer.)

VITAL STATISTICS

a. Type of firm (check only one)
General line (no one product category contributes 50% or more of total sales)
Specialist (50% or more of your total sales come from one major product category, such as bearings, power transmission, fasteners, etc.)
If specialist, what product category accounts for greatest volume? ______________

b. Number of full time employees at all locations as of
December 19[illegible] ______ December 19[illegible] ______

c. Number of salesmen
Outside as of December 19[illegible] 15-16 as of December 19[illegible]
Phone as of December 19[illegible] as of December 19[illegible]
Full time counter
as of December 19[illegible] 19-20 as of December 19[illegible] 25-26

d. Do you have plans to add one or more salesmen (inside or outside) in 1980?
YES ______ NO ______
If yes: Inside (number) ______ Outside (number) ______

e. Total warehouse space (including branches)
19[illegible] ______ sq. ft. 19[illegible] ______ sq. ft.

f. Do you plan expansion of existing physical facilities in 19[illegible]?
Yes ______ sq. ft. NO

g. Number of stocking branches as of
December 19[illegible] ______ December 19[illegible] ______

h. Do you have plans for opening one or more branches in 19[illegible]?
Yes ______ (how many?) NO

Were you approached with an acquisition offer in 19[illegible]?
YES NO

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Indicators...

Purchases of industrial supplies and equipment in December declined in all areas of the country except the east, according to the *NIDA-SIDA Industrial Distribution Index.* The national figure of 128.1 put the seasonally adjusted, two-month moving average 4.6 points (3.5%) below that of November 1980. The figure, however, is 4.4 points (3.5%) above the year-before level. . .The *NIDA-SIDA Inflation Index* for December was 136.3, up 1 point (0.7%) from November and 13.5 points (10.9%) from the year-before level. Regional sales, comparing December to month-before and year-before levels, were: east, 138.2, up 1.4% and 4.8%; midwest, 110.5, down 4.2% and 4.4%; west, 158.2, down 10.7% and 7.4%; south, 139.7, down 3.0% and up 18.7%. . .The *ASMMA New Order Index* stood at 224.5, up 5.4 points (2.5%) from November but down 28.7 points (11.1%) from December 1979. . . The *FRB Durable Manufacturers Index* rose to 139.9 in December, up 1.1 points. . .The *SIDA Monthly Sales Trend Report* showed a 5.5% increase in December-to-November sales and a 14.5% increase in December 1979 to December 1980 sales. The entire year's sales compared to 1979 showed a 5.9% increase. . .The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 18 points (9%) above November's and 5.1 points (2.4%) above that of December 1979. . .New orders for machine tools in December totaled $301.7 million, off 8% from the figure in November and down 25% from December 1979 order rates, according to estimates compiled by the National Machine Tool Builders' Assn. . . .The National Welding Supply Assn.'s *Welding Supply Index* rose to 138.6, up 3.8 points from the November figure. . .The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 105.3 in December, down 9.2 points (8.0%) from November and 20.5 points (16.2%) from that of the year before. . .A composite of key indicators of future economic activity fell in December to 136.6% of the 1967 average from a revised 137.7% in November, the Commerce Dept. reports. This was the first decline in seven months. Analysts blamed high interest rates.□

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In the past, even though you had the best saw blade, and with your expertise you could recommend the best speeds and feeds, your blades were still at the mercy of some fluid that had no business in a sawing operation. It's a fact: The wrong fluid can cause premature dulling, stripping and breakage of a saw blade. And what gets the blame? Your blade. And who doesn't get the business? You.

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December sales reverse downturn

A December sales upswing recouped much of November's loses, according to *Regional Report* correspondents.

While November sales marked a 17% downfall from October levels for all distributors, the year-end rally put sales up 7% from a month ago, to finish the year a firm 4% ahead of 1979.

In *ID*'s nationwide sales spotcheck, the most dramatic performance was seen in the energy-related West South Central region. Though distributors there reported only a 2% December gain, the yearly total swelled an awesome 27%. General liners pulled in the most action with gains of 35% compared to the same month a year ago, to build a yearly upturn of 34%. Specialist sales rose 25% for 1980.

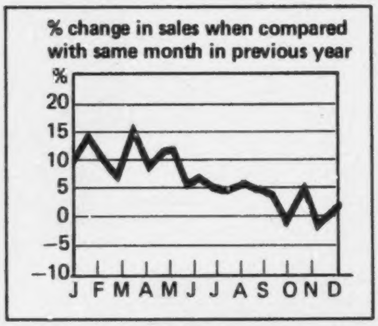
Business in the Mountain region continued to improve. But a monthly increase of 17% couldn't offset earlier losses, and the region gained only 2% for the year.

Only the West North Central and East North Central regions witnessed declines: 10% and 1%, respectively.

Closely linked to distributors' performances, the Dept. of Commerce's monthly figures for new durable goods orders climbed in December by 1.9% to a total of $82.56 billion. ☐

RECEIVABLES*	Dec. 1980		Dec. 1979	
	Gen.	Spec.	Gen.	Spec.
New England	40.1	40.0	41.1	42.6
Middle Atlantic	39.1	47.0	40.6	50.6
South Atlantic	36.4	36.3	39.3	36.3
East North Central	40.1	39.6	39.5	39.0
East South Central	40.4	44.7	42.7	44.9
West North Central	37.7	43.2	38.9	45.8
West South Central	40.3	42.1	41.5	41.1
Mountain	39.8	39.1	42.0	39.4
Pacific	36.3	43.4	36.3	43.6
National	38.9	41.7	40.2	42.6

*Average days outstanding



Sales moved briskly into the black to gain ground lost in an uneven year . . .

SALES BY REGIONS (% change)	Dec.'80 vs. Nov. '80			Dec. '80 vs. Dec. '79			12 mos. '80 vs. 12 mos. '79		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.i., Mass., N.H., Vt., Me.	+11	+2	+7	+6	+13	+9	+3	+14	+8
Connecticut	+13	−21	−10	+3	−15	−9	−2	+17	+11
Massachusetts	+10	+10	+10	+11	+16	+13	+5	+12	+7
MIDDLE ATLANTIC: N.Y., N.J., Pa.	+6	+20	+13	+2	+2	+2	+1	+7	+4
New York Metropolitan Area	+8	+13	+11	+16	+23	+20	+7	+16	+12
Upstate New York	+11	+25	+17	+13	−13	+0	+11	+1	+7
Pennsylvania	+3	+24	+12	−6	−4	−5	−4	+5	+0
SOUTH ATLANTIC: Del., D.C., Md.,	+9	+6	+8	+10	+3	+7	+2	+14	+8
Fla., Ga., N.C., S.C., Va., W.Va.	+8	−15	−3	+10	+22	+15	+2	+8	+5
Georgia-Florida	+9	+18	+15	+6	+6	+6	+2	+16	+11
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	+3	+6	+5	+3	−11	−4	−3	+1	−1
Indiana	−1	+3	+2	+1	−16	−10	−9	−1	−4
Wisconsin	+6	−10	+0	+3	−3	+1	+3	+1	+2
Chicago	−5	+26	+18	−20	−29	−27	+10	+3	+5
Michigan	−1	+19	+12	+8	+10	+9	−8	+1	−2
Ohio	+4	−25	−2	+8	+13	+9	−8	−1	−7
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	+16	−20	+2	+15	+1	+9	−4	+5	+0
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	+0	+5	+1	−9	−16	−13	−7	−10	−10
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	+8	−1	+2	+35	−6	+6	+34	+25	+27
Texas	—	+2	—	—	+23	—	—	−10	—
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	+15	+18	+17	+8	+9	+8	+1	+2	+2
PACIFIC: Calif., Ore., Wash.	+8	−5	+2	+4	+4	+4	+2	+4	+3
L.A.-San Diego	+3	−16	−5	+14	+3	+9	+7	+6	+7
Oregon-Washington	+10	+5	+8	+1	+5	+1	+1	+2	+2
U.S. TOTALS	+7	+7	+7	+5	−1	+2	+1	+6	+4

35th Annual Survey of Distributor Operations...

'80 sales up 10%, profits plummet

Recession and inflation took their tolls; gross and pre-tax profits skidded dramatically. Yet most distributors held out by cutting costs. The 1981 forecast, after a year of coping, calls for an even sales climate and recovery of lost ground.

Considering that 1980 witnessed the prime breaking 20%, factory output down 10% from 1979 peaks and housing sales off 25%, distributors didn't fare as badly as many. Despite the Federal Reserve Board's *Index of Industrial Production* dip of 3%, distributors managed to claw out a 10% median sales increase.

Yet with the *Consumer Price Index* hovering at a double-digit level, distributors' small sales gains were still battered by inflation. Gross profits slipped 3% for all distributors, and net after-tax profits closed at year-ago levels.

Tidal waves of interest played havoc, as expected, with receivables, especially for specialists. They posted an 18.5% increase to $205,770 in total value of receivables at year end, while days outstanding climbed two days to 43.

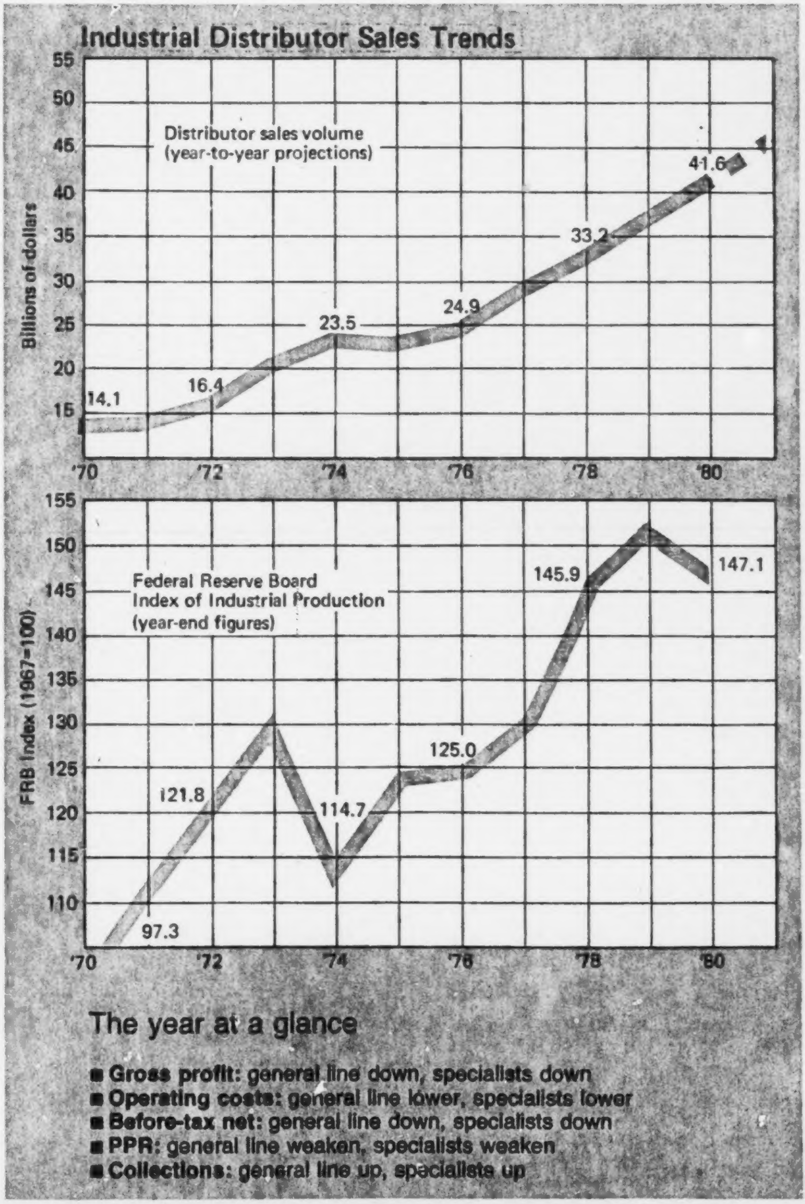
General liners performed better, showing a 3.5% increase in total value to $249,000. Days outstanding clicked up only one notch to 42.

Downturn arrested

Even in what must appear a year of doom and gloom, there were encouraging signs. Although profits (both gross and pre-tax) were down for all but a handful of distributors, after-tax profits remained buoyed at last year's levels: 2.6% of total sales for specialists, and 3.4% for general liners.

The slide was arrested, in part, by severe reductions in operating expense. While the median for all respondents showed a 1.2% trimmer distributorship, specialists exhibited extraordinary reductions in operating expenses. In the $4-million to $5.9-million category, specialists cut costs by 3.8%, to 15.0% of total sales. General liners in the same sales range trimmed costs by a more modest 0.5% to 13.7%.

In the less than $2 million in sales group, general liners led the way with a 3.0% reduction in costs to 19.2% of total sales, while specialists trailed with 1.7% cost cuts to 15.1%. Only those specialists in the $2-million to $3.9-million category



The year at a glance

- **Gross profit:** general line down, specialists down
- **Operating costs:** general line lower, specialists lower
- **Before-tax net:** general line down, specialists down
- **PPR:** general line weaken, specialists weaken
- **Collections:** general line up, specialists up

saw an increase: 1.4% to 18.4%.

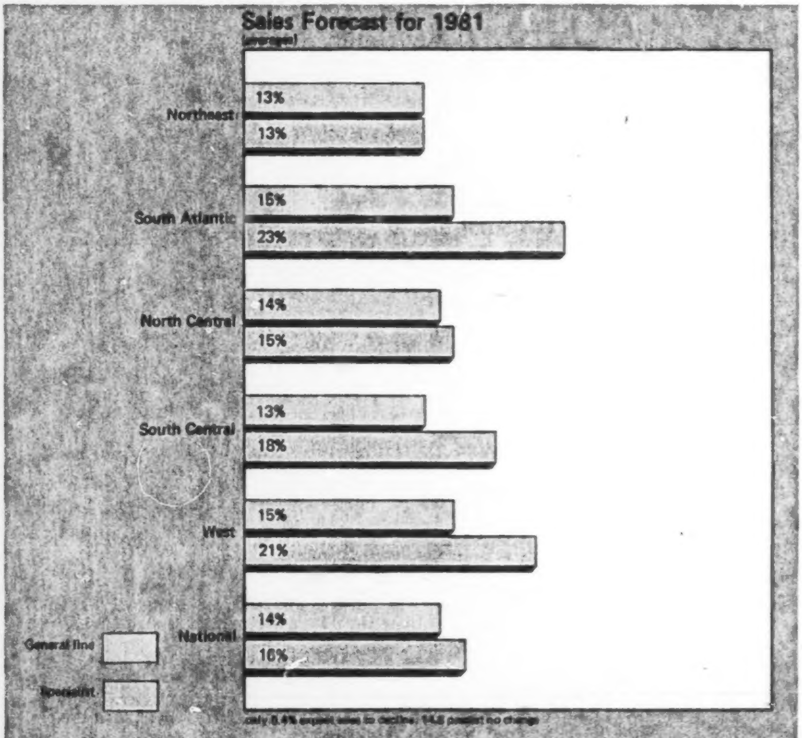
With tighter operations, the forecast for the year ahead is promising. On the whole, specialists expect to see better performance and a median sales increase of 16% compared to general liners' outlook of 14%.

But in looking at regional differences, vast fluctuations surface. For instance, Sun Belt specialists in the South Atlantic sector expect to lead the nation with a 23% sales jump in '81, continuing that area's stellar growth.

General liners' expectations are less bright by comparison, with a 15% anticipated upswing.

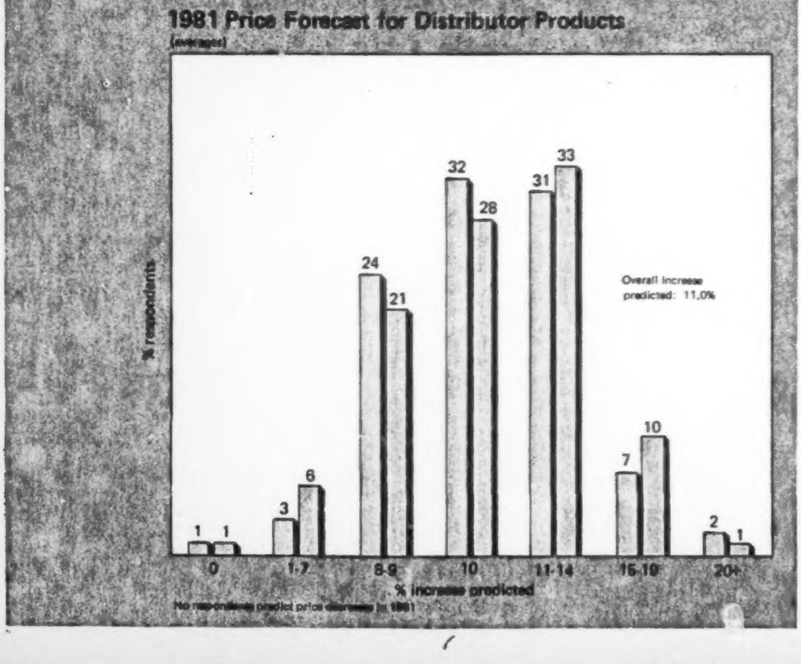
Western states regions tell different stories. Heavily dependent on energy resources, an oil rush will follow on the heels of that industry's deregulation. Owing to the rapid exploration of the 2000-mile-long Overthrust Belt, extending from Alaska to Mexico, oil is playing a major role in the growth pattern of western cities. Salt Lake City, Las Vegas, Seattle and Denver each predicts 10% increases in number of jobs this year.

Specialists in the West and South Central regions foresee sales thrusting ahead 21% and 18%, respectively. General liners don't look to match this stunning sales upticking, but their projections, 15% in the West and 13% in the South Central, aren't pessimistic, either.



Sales Forecast for 1981
(averages)

only 0.4% expect sales to decline; 14.8 predict no change



1981 Price Forecast for Distributor Products
(averages)

No respondents predict price decrease in 1981

Productivity off

When, in the second quarter, real economic output dropped 9.9%, recession stared industry in the face. According to the Bureau of Labor Statistics, as economy lags, so does worker productivity. Last year as a whole, worker productivity fell by 0.3%, the second year of decline, and 1.9% in both the second and fourth quarters. Distributors' methods for charting productivity tell the story.

Overall, sales per employee gained marginally for general liners: 1% to $117,000. Specialists advanced 3.5% to $145,000. But for both general liners and specialists, gross profit per employee showed median declines of 2%, to finish at $41,000 and $47,000 respectively.

Drooping gross profit per employee figures were mirrored by changes in the personnel productivity ratio (PPR). Increases here were negative, with general liners up 3% to 56% and specialists 4% to 50%.

PPR is a formula devised by consultant George C. Webster to measure the productivity of distributors and other wholesalers. The formula:

$$\frac{\textbf{Total compensation}}{\textbf{Gross profit \$}} \times 100$$

The acceptable average is 45%, and the higher the number, the lower the worker performance. But since the figures used in this survey are medians, remember that half of all respondents will be above the calculated total and half below.

Personnel opens up

Distributors plan to meet the challenge of flagging sales with massive influxes in personnel. During the period of 1979 to 1980, little change occurred.

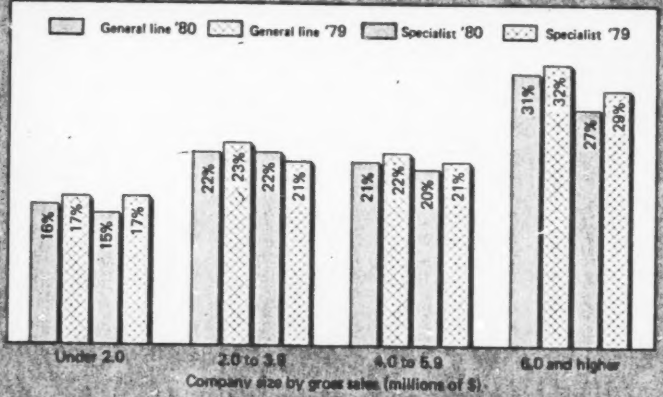
The general line total edged up 0.4 persons, and specialists remained at previous levels. No changes showed up in either inside or outside sales staffs.

But this trend will turn around. For specialists, a full 70% plan to bolster staffs, as do 60% of general liners. Additions of outside salesmen receive top priority. Sixty percent of specialists will add to outside sales

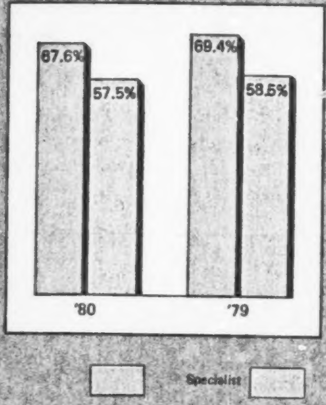
Profit & Loss

The profit picture was painted with somber hues in 1980. For all but a select few, both gross and pre-tax net profits slipped from year-ago levels. Similarly, return on investment saw declines across-the-board, with the exception of two specialist groups. The only bright news, if it can be called such: the stability of net profit after tax, which closed at previous year levels. Sales from stock were reduced marginally in an attempt to keep inventories trim.

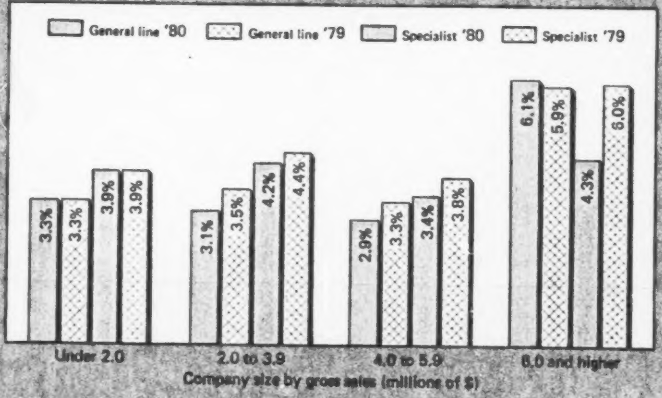
Gross Profit
(% of total sales)



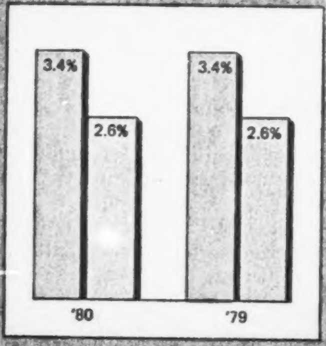
Sales from Stock
(% of total sales)



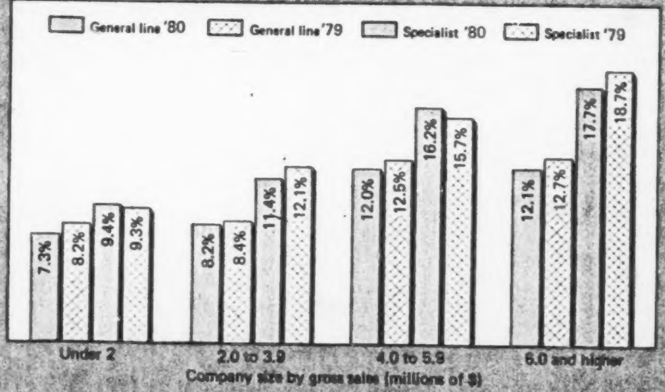
Net Profit Before Tax
(% of total sales)



Net Profit After Tax
(% of total sales)

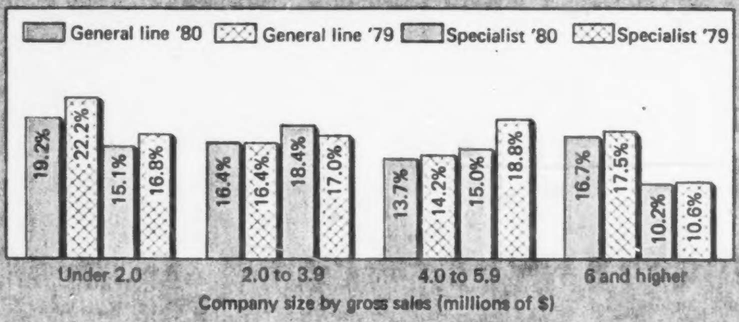


Return on Investment
(return on net worth)



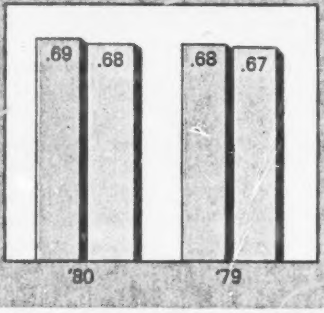
Total Operating Expenses

(% of total sales)



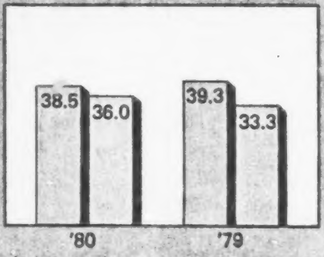
Total Insurance Expense

(% of total sales)

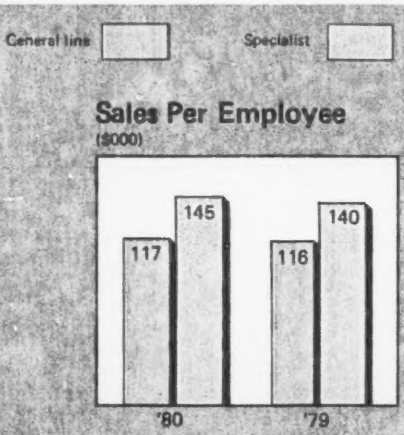


Total Computer Expense

($000 – averages)



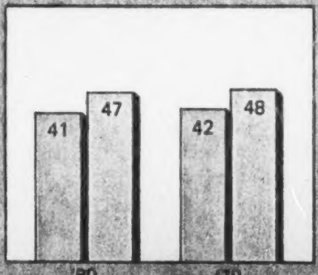
Includes equipment costs, service fees salaries and supplies.



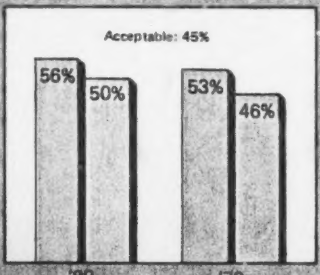
Sales Per Employee

($000)

Gross Profit Per Employee ($000)



Personnel Productivity Ratio



Definitions...

Median: Generally considered the best way of preventing distortion in a sample that might otherwise be dominated by large or small companies. For any given performance measure, the numeric values of the range are arrayed from the strongest to the weakest. The figure that falls in the middle of the array is the median. The firms listed above it had stronger performances; the one below it, weaker. Unless otherwise noted, median figures are used in the graphs.

Average: The mean obtained by adding different figures or values together and dividing the sum by the number of quantities. Used in this survey where it has more value than the median or as a comparison point to the median.

General line: Distributorships in which no one major product category (i.e., cutting tools, power tools, bearings) constitutes 50% or more of total sales.

Specialists: Distributorships in which one product category accounts for 50% or more of total sales.

staffs, while 43% look for increases in inside staffs. For general liners, the figures come to 48% for outside and 37% for inside.

In accordance with previous years, the South Atlantic possessed the highest median number of employees: 21.8. Following were the South Central with 17.6; the West, 17.5; the Northeast, 13.7; and the North Central, 13.0.

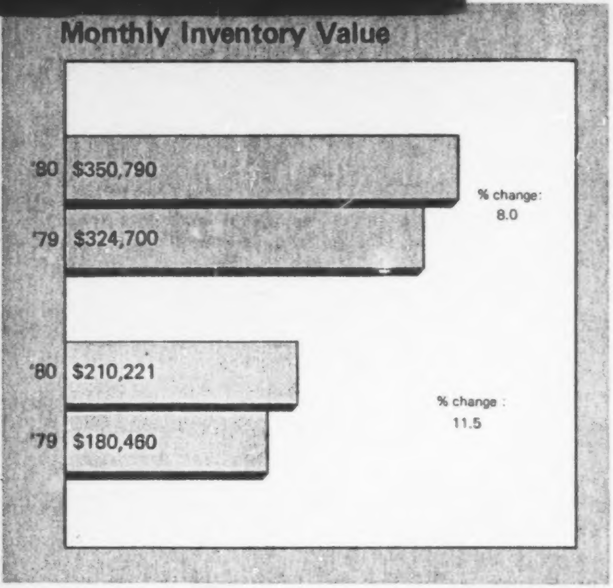
Expansion plans

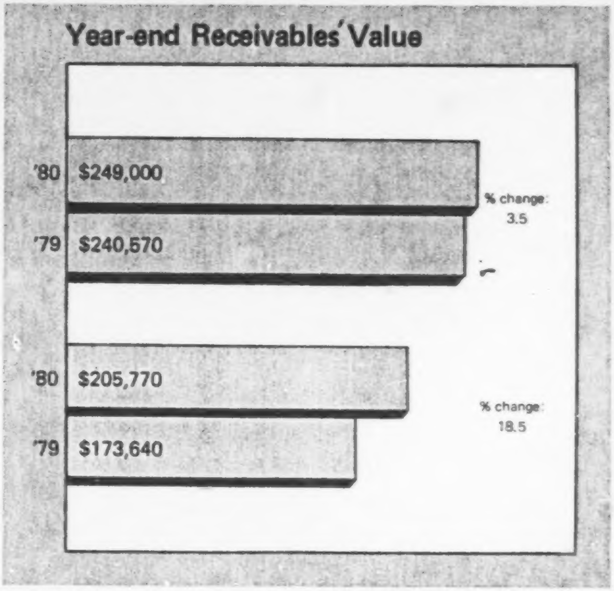
After being battered in 1980 by a depressed economy, it's no wonder that few distributors plan to open new branches this year. Only 12% of the general liners and 15% of the specialists expect to open new facilities.

By dollar volume, the big will get bigger. In the less than $2-million sales category, 7.4% of general liners and 7.7% of specialists plan new branches. In the $2-million to $3.9-million range 9.1% of general liners and 7.1% of specialists anticipate adding new facilities.

But in the $4-million to $5.9-million range, 33.3% of general liners and 13.5% of specialists are eyeing new branches. Specialists are far ahead of general liners in the $6-million-and-up category: 43.9% expect to open new outlets, compared to 20.5% of general liners.

It can be argued that for the highly profitable distributors, growth will likely come via acquisition. Last year, 36.1% of all respondents report they were approached with an acquisition offer. For the South





Atlantic, offers came hard and fast; 44.2% of respondents there said they'd been approached. In other regions, the acquisition edge is blunter: South Central distributors indicate that 37.8% of them had been approached; in the Northeast, 35.3%, North Central, 32.1%, and the West, 27.3%.

What potential buyers are willing to lay out their cash for, single-facility operations, hasn't changed much. As an industry profile, 52% of the general liners and 48% of the specialists still had no branches.

Additionally, last year saw little warehouse expansion and even less projected for the future. On a median level, total warehouse space increased only 3.5% to 16,321 sq ft for general liners and 7.6% to 11,191 sq ft for specialists. Only 15% of general liners and 22% of specialists plan to add more.

Compensation steady

In 1980, compensation increases ran under the median sales increase of 10%, which has not been the case in recent years. The past year evidenced only a 3% gain for general liners to $405,520, and an 8% hike for specialists to $347,120. The national average showed an increase of 5.1% to $363,700.

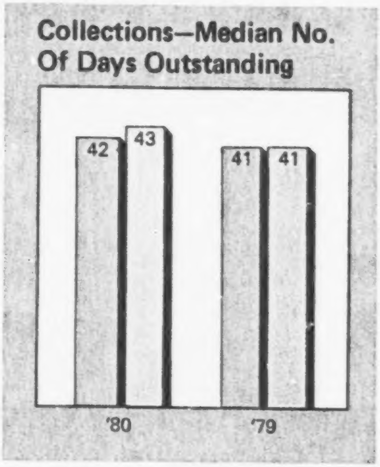
By regions the totals were uneven.

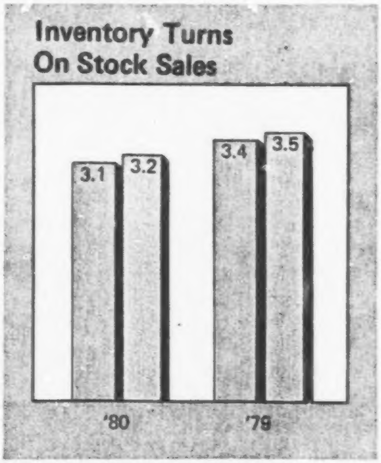
- Northeast, $363,700, up 6%
- South Atlantic, $435,650, up 1%
- North Central, $390,160, up 6%
- South Central, $383,680, up 6%
- West, $260,680, up 1%

For both specialists and general liners, insurance costs rose only slightly, 0.01%. This meant that general liners paid 0.69% of total sales in insurance, while specialists shelled out 0.68%.

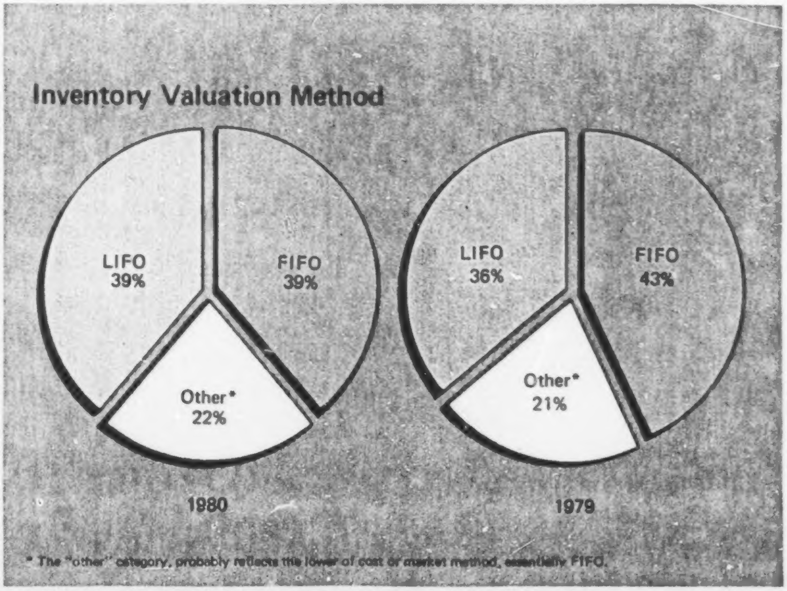
Controlled inventories

A volatile prime rate provided the impetus to keep inventories trim. With the slimmest

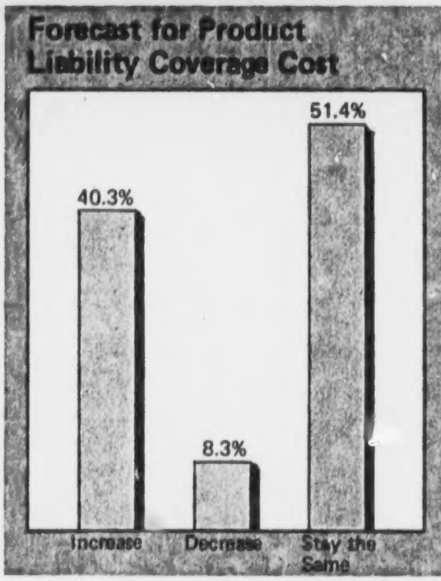


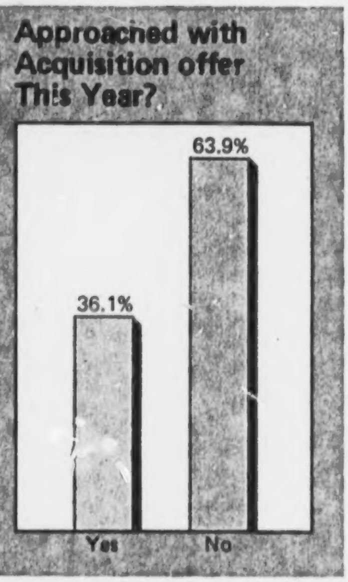


General line ▨ Specialist ▨



* The "other" category, probably reflects the lower of cost or market method, essentially FIFO.


Forecast for Product Liability Coverage Cost


Approached with Acquisition offer This Year?

increase in recent years, general liners posted an 8% change on average monthly inventory value, up to $350,790. The total for specialists is $210,221, up 11.5%. Yet sizable gains by comparatively small distributors were offset by the relatively minor gains by large distributors. The breakout by dollar volume:

- Less than $2 million: general liners $130,600, up 8.4%; specialists $82,160, up 9.3%.
- $2 million to $3.9 million: general liners $459,680, up 2.3%; specialists $338,930, up 13%.
- $4 million to $6 million: general liners $772,250, up 2%; specialists $694,850, up 4%.
- $6 million and more, general liners $1,084,820, up 1%; specialists $1,050,780, up 1%.

Inventory valuation

Method of inventory valuation intensified toward LIFO in 1980. LIFO is generally considered the most accurate way of determining inventory value, and in the past year the number of respondents using it crept up 3% to 39%. However, in 1981, 45% of those surveyed plan to use LIFO, and 35% FIFO. The figures represent the first time that LIFO will outdistance FIFO in distributor usage.

Another stable year-to-year category, gross profit from cash discounts, showed little change in 1980. For general liners, the figure amounted to 0.28% of total sales, the same as in 1979. Specialists' cash discounts exhibited only slight activity: 0.27%, up 0.01%.

Product liability

The number of distributors involved in product liability suits shrinks each year, declining from 13% in 1978 to 7% in 1979. The number of those actually fined was slashed drastically, from 1979's 27.3% to only 3.7% in 1980.

Key formulas....

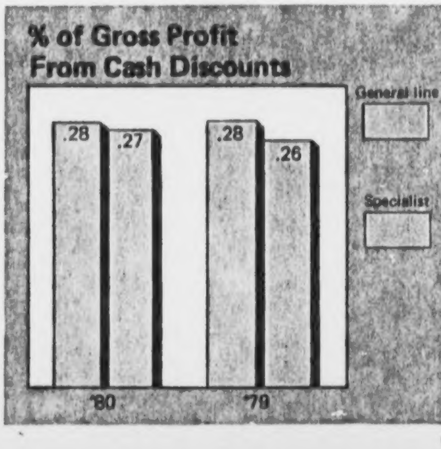
% of total sales: *Individual measure (i.e., sales from stock) divided by total sales. Result is multiplied by 100.*
Sales per employee: *Total sales divided by number of employees.*
Gross profit per employee: *Gross profit, in dollars, divided by number of employees.*
Total operating expenses: *Costs of selling, delivery, salaries, warehouse, EDP, insurance, land and building occupancy, general and administrative.*
Inventory turnover: *Stock sales at cost divided by average monthly inventory value.*

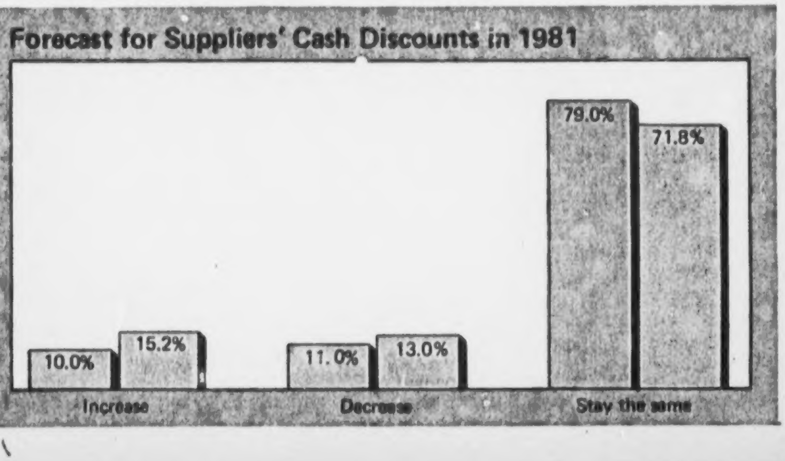
Even so, product liability insurance rates are expected to climb. A full 40.3% expect to pay more for the coverage this year. The median projected increase is 9%. Rates are expected to stay the same, according to 51.4% of respondents, while 7.3% foresee a decline.

According to Myra Tobin, the senior claims advisor for Marsh & McClennan, Inc., the nation's largest insurance broker, distributor expectations should live up to the realities of the insurance market. She said that currently the market is in a soft cycle, meaning that forms of insurance such as product liability and workman's compensation are easy to get and competitively priced. But Tobin noted that the picture could change by the second quarter of 1982, or even this year if a nationwide natural disaster strikes and drains the funds available to insurers, and thereby causes prices to climb.

EDP use

Some of the biggest news of the year came from EDP usage. For one thing, computer costs posted the smallest annual gains ever. General liners actually saw a decline of 2% in average combined cost of hardware and software, and specialists an 8% increase.


% of Gross Profit From Cash Discounts


Forecast for Suppliers' Cash Discounts in 1981

General liners lead in computerization totals. For the first time, EDP use broke the halfway mark; 53% report systems in use. Specialists lagged behind only slightly with a 49% total.

And the number of distributors switching to computerization is gaining momentum. Of the 47% of general liners not computerized, 61% plan to make the switch in 1981. Specialists again trail slightly, with 60% planning to go EDP.

Increasingly, in-house systems are being employed. A 6% jump toward in-house occurred in 1980, with a 13% on-line systems increase. On-line systems provide the most sophisticated computer option for distributors because they enable applications such as perpetual inventory records and purchasing to be automated.

Standard numbering, advocated by National and Southern Industrial Distributors Assns. and other industry groups, demonstrated another advance toward automation. Although 11-digit standard numbers do not have to be used solely in computers, EDP facilitates their use. General liners accepting some standard numbering increased 4.3% over 1979 levels to 22.8%. Specialists rank below general liners in this area: Only 11% used standard numbers in 1980 to record a 2.2% increase over the 1979 figures.

The heaviest concentration of items covered by standard numbering for both groups is in the 1-30% range of stock items. General liners report 43.7% of those stock items are covered. This is much lower than the specialists' figure of 63.2%.

Use of computerization and standard numbering, say their proponents, make distributorships more profitable. It appears that distributors agree, and see automation as a way to increase performance.

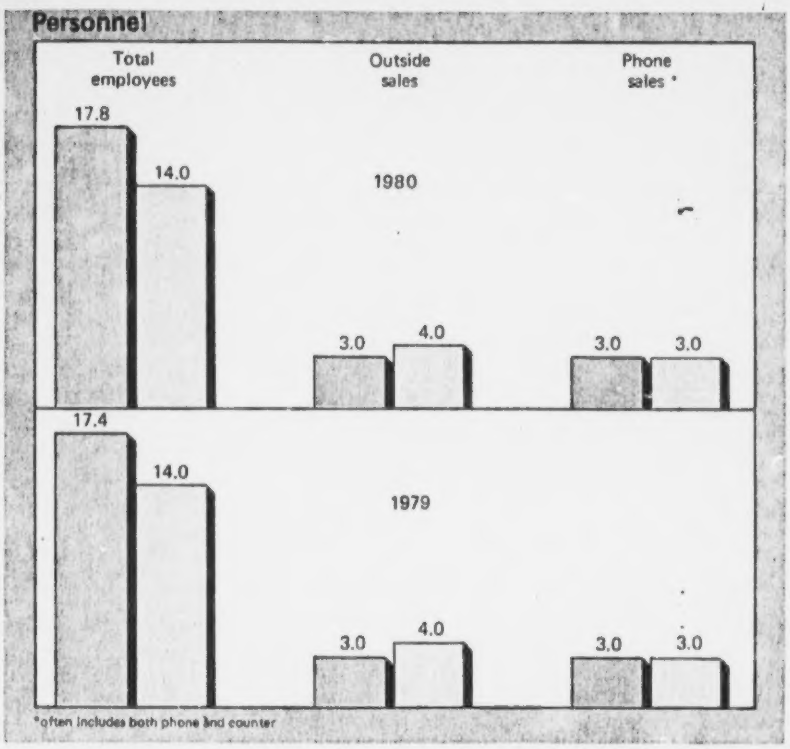
State of the Industry

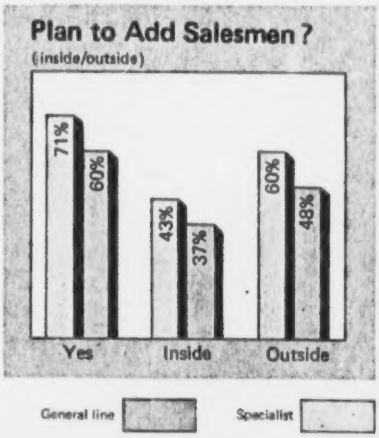
The past year saw gross sales climbing at a slower rate than in past years, high inflation and, therefore, profit erosion.

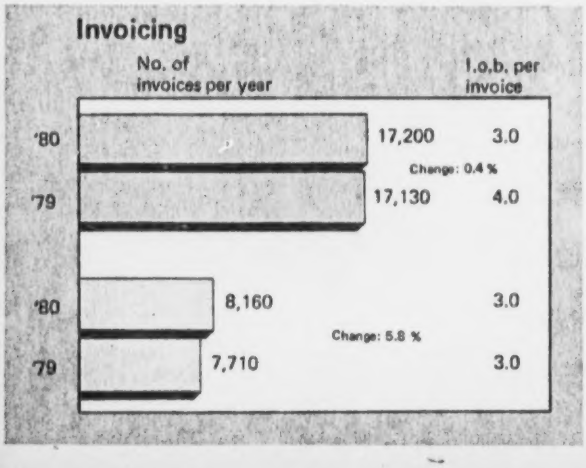
But prospects remain bright. For instance, the regional and national sales forecast on page 38 depicts leading indicators, but doesn't tell the whole story. When broken down by anticipated increase, sales projections are more than optimistic.

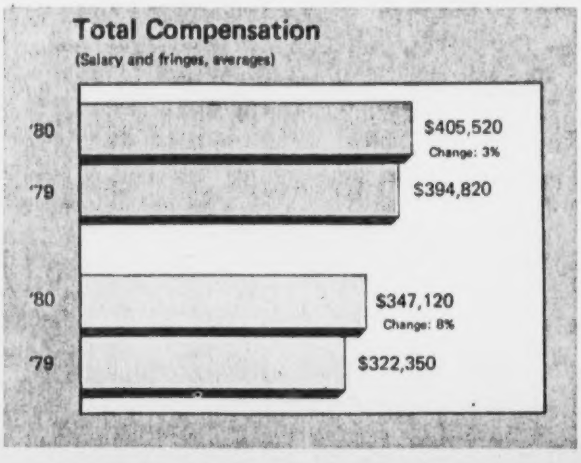
Of all respondents, 53% predict sales increases of between 1% and 14%. Not bad, but a full 24% do better. They believe sales will stride forward by as much as 15% to 20%. Better still, the remaining 23% see sales shooting up by more than 20% — with almost half of those respondents expecting a jump in excess of 25%.

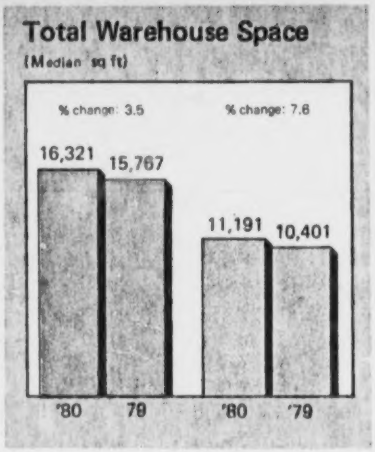
Naturally, all raw sales increases must take into account the currently predicted double-digit inflation for 1981.







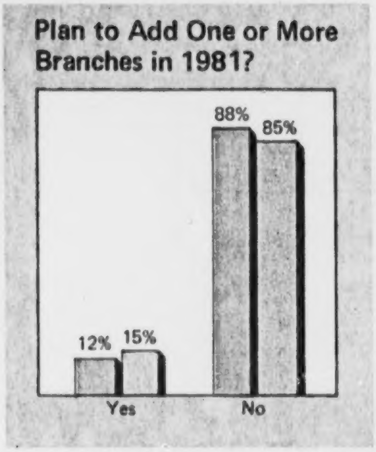




But even after adjustment, the resulting real growth figure doesn't adequately measure the true pulse of the industry because new procedures adopted in 1980 will boost profits in years to come.

Dramatic slashes in operating costs witnessed last year will, if carried over into 1981, maintain a healthy bottom line.

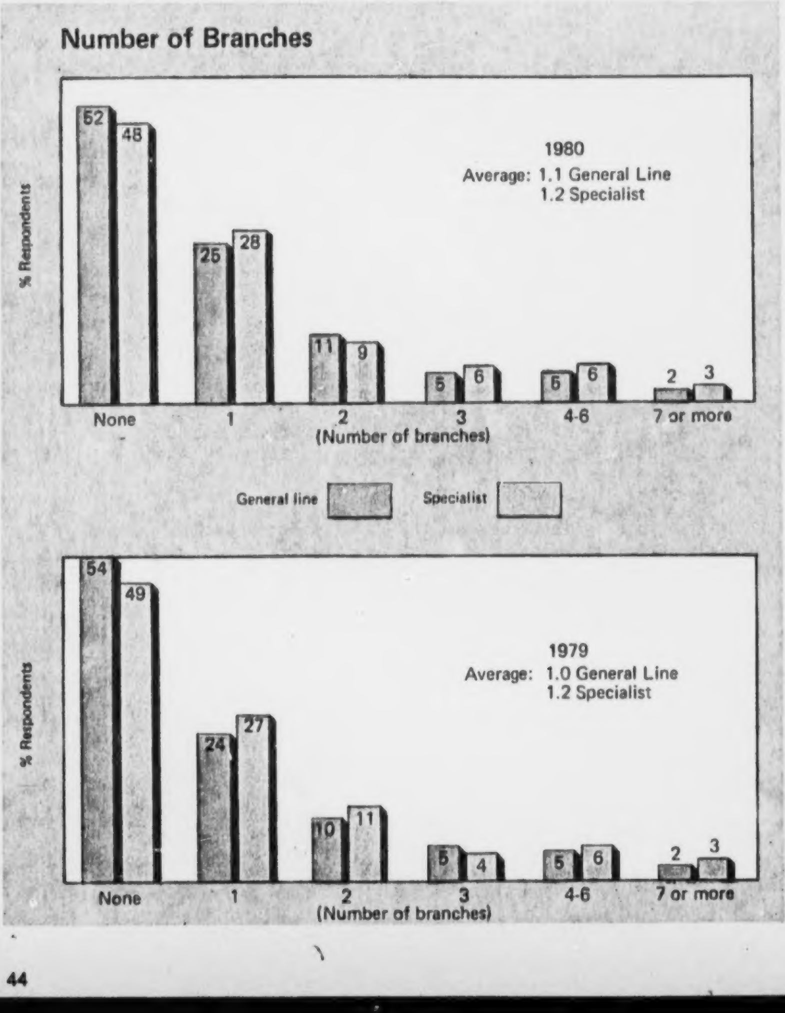
Continued inroads cut by EDP are further streamlining operations.



Distributors are discovering that LIFO provides a hedge against taxes on increased inventory valuation caused by the pernicious inflation that refuses to abate, according to political pundits' projections.

Anticipated personnel increases will further enhance sales potential.

The cutbacks distributors were forced to make in 1980 are the profit insurance policies of the future. □

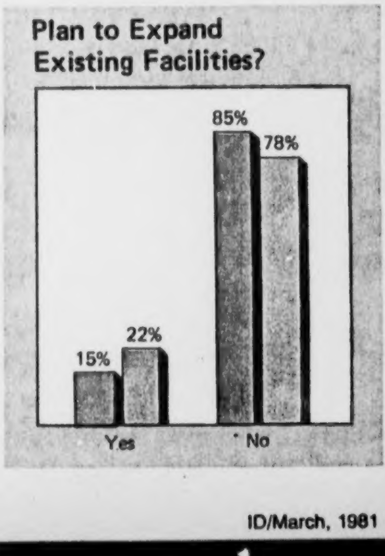


On using this survey...

Through computerized analysis and collection of the mass of information supplied by distributors throughout the country, ***ID*** *has presented the results in several different formats to allow individual firms to compare their own performances with national and regional norms. Since each year's survey is culled from a different group of respondents, comparisons between one year's report and another should not be drawn.*

The industry sales line shown at the start of this report is taken from Census Bureau data on the performance during that period in Standard Industrial Classifications 5084, 5085 (sales of industrial supplies and equipment) and revised according to actual dollar figures submitted by respondents. The remaining data presented in the graphs and tables are from the current group of respondents, who supplied 1979 and 1980 figures for comparison.

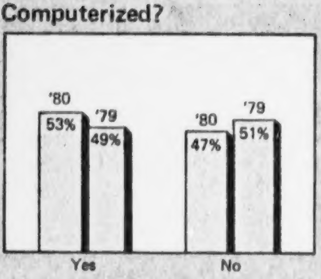
Survey results have been presented in terms of both medians and averages, where applicable. It should be noted that a median is the better indicator of an individual distributor's place in relation to others', although the average is useful in determining industrywide placement. Of the general line firms, 47.8% had sales of less than $2 million; 19.4%, $2 million to $3.9 million; 7%, $4 million to $5.9 million; and 25.8%, $6 million or more. Of the specialists, 50.8% had sales less than $2 million; 22.3%, $2 million to $3.9 million; 9.6%, $4 million to $5.9 million; and 17.3%, $6 million or more. Fifty-one percent of respondents classified themselves as specialists.



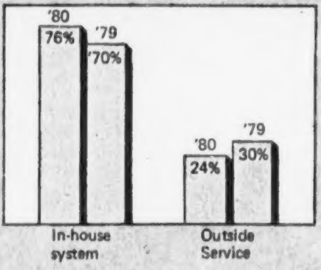
Computer Use

Heavy advances were made last year in the use of computers, maximizing distributor performance in a flagging sales year. In-house systems gained in popularity, and outside services declined, demonstrating a move toward more sophisticated record keeping. Of those operations not computerized, a full 60% plan to this year. Again, the overwhelming choice is toward in-house systems.

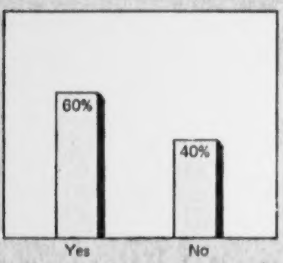
Computerized?



If Yes, What Method?



Computerize This Year?



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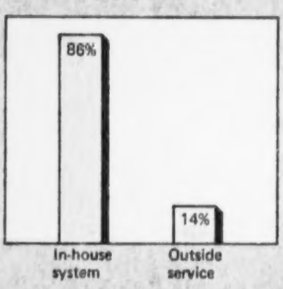
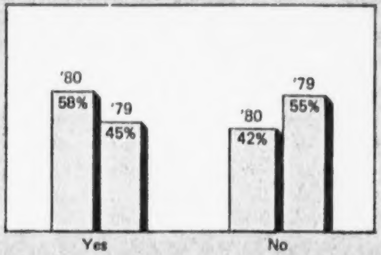
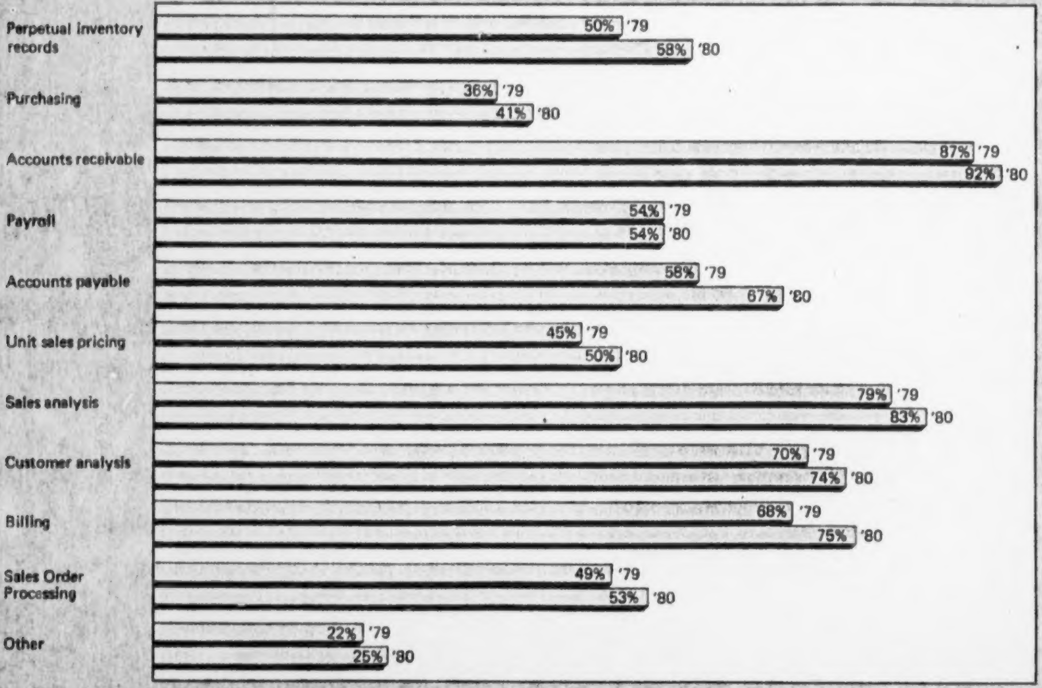


System On-line?

(Direct access, instant response)

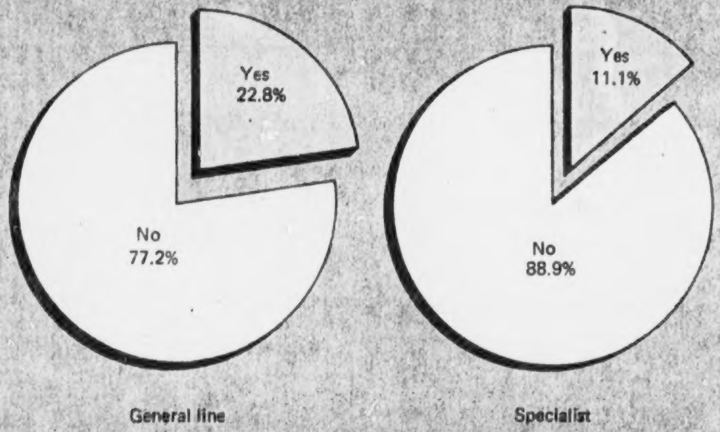


Computer Applications

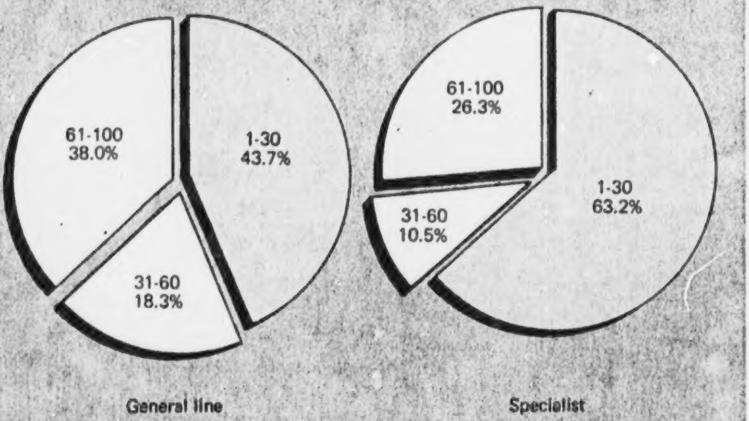


Standard Numbering Used?

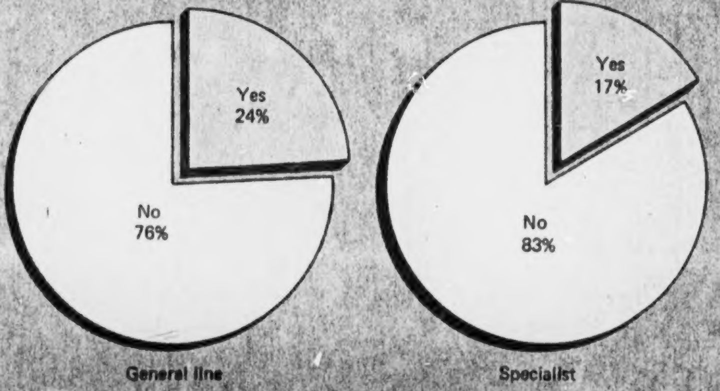
(11-digit and item numbers)



% of Items Covered by Standard Numbering



Plan to Begin Using Standard Numbers in Next Two Years?



Performance by region: How does your company compare?

All key reporting and performance data in this report have been collated by region to allow managers and salesmen to compare their firms' figures against the norms for their areas. Note, however, that the separate operational figures (i.e., gross profit, operating expense, net profit before tax, etc.) are not listed sequentially as they would on an income statement. Each set of figures is derived from a different number of respondents. Regions are purposefully broad to ensure that the figures presented here are representative. Medians are used in most instances so the information is not imbalanced by a small sample or by any one measure or region.

Regional Breakouts...

Northeast

Conn., Maine, Mass., N.H., R.I., Vt., N.J., N.Y., Pa.

South Atlantic

Del., D.C., Fla., Ga., Md., N.C., S.C., Va., W. Va.

North Central

Ill., Ind., Iowa, Kans., Mich., Minn., Mo., Neb., N.D., S.D., Ohio, Wis.

South Central

Ala., Ark., Ky., La., Miss., Okla., Tenn., Texas

West

Alaska, Ariz., Cal., Colo., Hawaii, Idaho, Mont., Nev., N.M., Ore., Utah, Wash., Wyo.

	National		Your figures	Northeast		Your figures
	'80	'79		'80	'79	
Total sales ($000)	$2,720	$2,600		$2,550	$2,400	
Sales from stock (% of total sales)	63%	65%		58%	59%	
Gross profit (% of total sales)	27%	28%		29%	31%	
Total operating expenses (% of total sales)	21%	21%		23%	23%	
Net profit before tax (% of total sales)	3.98%	4.08%		2.76%	2.76%	
Net profit after tax (% of total sales)	2.92%	2.92%		1.79%	1.79%	
ROI (return on net worth)	10.0%	11.0%		10.8%	10.2%	
Sales per employee ($000)	$132.5	$129.0		$130.7	$135.1	
Gross profit per employee ($000)	$ 44.6	$ 45.6		$ 42.4	$ 47.5	
Monthly inventory value ($000)	$247.4	$224.5		$224.5	$203.8	
Receivables value as of Dec. 31 ($000)	$224.9	$199.5		$231.0	$210.4	
No. days outstanding at Dec. 31	42.2	41.0		42.9	41.7	
No. of invoices billed (000)	12.0	11.1		10.2	8.6	
No. of lines of billing per invoice	3.0	3.0		3.0	3.0	
- - - - - -						
No. of employees	15.7	15.6		14.5	13.7	
No. of outside salesmen	4.0	4.0		4.0	3.0	
No. of inside (phone and counter) salesmen	3.0	3.0		3.0	2.0	
Warehouse sq ft (000, including branches)	12.1	11.1		9.0	8.8	
No. of branch locations (avg.)	1.1	1.1		1.0	0.9	
Total compensation (avg., $000)	$376.9	$358.6		$363.7	$342.5	

	South Atlantic		Your figures	North Central		Your figures
	'80	'79		'80	'79	
Total sales ($000)	$3,200	$3,160		$2,680	$2,630	
Sales from stock (% of total sales)	66%	68%		66%	68%	
Gross profit (% of total sales)	27%	28%		25%	25%	
Total operating expenses (% of total sales)	18%	23%		18%	18%	
Net profit before tax (% of total sales)	4.86%	4.9%		3.44%	3.92%	
Net profit after tax (% of total sales)	4.08%	4.13%		2.00%	2.09%	
ROI (return on net worth)	11.7%	14.0%		9.0%	11.1%	
Sales per employee ($000)	$128.1	$119.5		$141.3	$136.9	
Gross profit per employee ($000)	$ 41.5	$ 40.6		$ 49.0	$ 47.4	
Monthly inventory value ($000)	$399.4	$413.4		$226.1	$206.0	
Receivables value as of Dec. 31 ($000)	$293.6	$241.9		$196.4	$170.1	
No. days outstanding at Dec. 31	41.1	38.3		43.3	41.2	
No. of invoices billed (000)	15.7	15.8		9	8.9	
No. of lines of billing per invoice	3.0	3.0		3.0	3.0	
- - - - - -						
No. of employees	21.8	22.0		13.0	13.0	
No. of outside salesmen	4.0	4.0		4.0	4.0	
No. of inside (phone and counter) salesmen	3.0	3.0		2.0	2.0	
Warehouse sq ft (000, including branches)	18.2	16.6		10.7	8.5	
No. of branch locations (avg.)	1.7	1.2		1.0	0.7	
Total compensation (avg., $000)	$435.7	$431.7		$390.2	$368.1	

	South Central		Your figures	West		Your figures
	'80	'79		'80	'79	
Total sales ($000)	$2,980	$2,770		$2,240	$1,940	
Sales from stock (% of total sales)	67%	69%		77%	65%	
Gross profit (% of total sales)	34%	33%		25%	26%	
Total operating expenses (% of total sales)	22%	22%		20%	22%	
Net profit before tax (% of total sales)	5.17%	5.00%		5.95%	5.95%	
Net profit after tax (% of total sales)	3.36%	3.33%		3.09%	3.17%	
ROI (return on net worth)	9.1%	9.8%		12.8%	13.5%	
Sales per employee ($000)	$133.1	$111.5		$118.5	$111.8	
Gross profit per employee ($000)	$ 47.0	$ 42.4		$ 46.6	$ 48.0	
Monthly inventory value ($000)	$353.8	$270.8		$358.2	$313.7	
Receivables value as of Dec. 31 ($000)	$284.6	$218.5		$275.8	$263.3	
No. days outstanding at Dec. 31	40.5	41.44		42.9	41.4	
No. of invoices billed (000)	17.5	15.3		8.4	8.2	
No. of lines of billing per invoice	3.0	3.0		3.0	3.0	
- - - - - -						
No. of employees	17.6	18.2		17.5	17.5	
No. of outside salesmen	4.0	4.0		4.0	3.0	
No. of inside (phone and counter) salesmen	3.0	3.0		4.0	3.0	
Warehouse sq ft (000, including branches)	14.7	14.1		13.0	12.6	
No. of branch locations (avg.)	1.3	1.1		1.1	1.1	
Total compensation (avg., $000)	$383.7	$354.3		$260.1	$258.6	

Note: All figures are in medians, except where averages are specified.

April 1981

Industrial Distribution

Hotline:
Accommodation [illegible]
[illegible] as inventory
[illegible]

Preview: 1981 Triple Industrial Supply Convention

Incoming presidents. . .

[illegible]
[illegible]

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SIDA

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Indicators...

Sales of industrial supplies and equipment in January picked up sharply in all areas of the country, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure of 138.9 put the seasonally adjusted, two-month moving average 10.8 points (8.4%) above that of December. The figure is also 6.9 points (5.2%) above the year-before level...*The NIDA-SIDA Inflation Index* for January was 137.8, up 1.5 points (1.1%) from December and up 13.5 points (10.9%) from the year-before level. Regional sales, comparing January to month-before and year-before levels, were: east, 147.2, up 6.9% and 3.3%; midwest, 125.2, up 13.3% and 1.7%; west, 166.6, up 5.3% and 5.9%; south, 143.6, up 2.8% and 14.8%...The *ASMMA New Order Index* stood at 111.6, down 0.4 points (0.4%) from December and 12.9 points (10.4%) from January 1980...The *FRB Durable Manufacturers Index* reached 141.1 in January, up 0.7 of a point...The *SIDA Monthly Sales Trend Report* showed a 7.7% drop in January to December sales and a 3.8% decrease in January 1981 from January 1980 sales. Sales in the first month of 1980, compared to the same period in 1980, showed a 0.5% decline...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 23.2 points (10.7%) above December's and 3.9 points (1.6%) below that of January 1980...New orders for machine tools in January totaled $79.6 million, 7% down from December, but 40% below the year-ago level, according to estimates compiled by the National Machine Tool Builders' Assn...The National Welding Supply Assn.'s *Welding Supply Index* rose to 141.6 in January, up from December's 138.6...The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 116.8 in January, up 8.5 points (7.8%) from December but down 11.1 points (8.7%) from the year-ago level...Hardware wholesalers foresee a 10% increase nationally in their sales for 1981 compared to 1980, according to a *Year-End Business Conditions Survey* conducted by the National Wholesale Hardware Assn. Distributors sales climbed 2%, the survey showed. □

January sales tumble

An inauspicious start marred the new year as January sales dipped 3% below year-ago levels for all distributors, according to *Regional Report* correspondents.

General liners posted the heaviest loss of 5%, while specialists maintained last year's sales pace with no growth.

When compared to previous month totals, distributors fared only slightly better. Sales for general liners crept down 3%. However, specialists painted a rosier picture with a 3% upturn, which wiped out general line losses in national totals.

By regions, sales around the country popped up and down like a ping-pong ball. Indiana specialists exhibited the most dramatic gain, 43%; Connecticut trailed slightly at 35%.

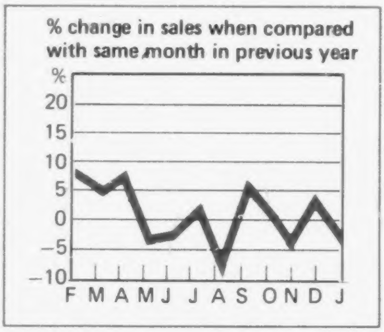
Areas reporting declines were led by Mountain specialists, whose sales eroded 25% in monthly performance.

For many regions, year-to-date sales stagnated. New England, Upstate and Metropolitan New York and Michigan all witnessed neither gain nor loss.

According to the Dept. of Commerce, leading economic indicators fell to 135.8% of the 1967 average from December's revised figure of 136.4%, signalling to economists a return to 1970's stagflation.□

RECEIVABLES*	Jan. 1981		Jan. 1980	
	Gen.	Spec.	Gen.	Spec.
New England	43.7	40.5	40.9	42.3
Middle Atlantic	39.5	42.7	38.5	39.5
South Atlantic	39.1	39.9	36.7	36.5
East North Central	41.0	41.0	35.1	37.3
East South Central	39.0	40.6	41.0	41.6
West North Central	42.2	41.0	41.1	40.0
West South Central	43.1	43.0	40.0	41.5
Mountain	41.5	40.9	39.7	40.0
Pacific	34.4	39.1	35.4	40.0
National	40.4	40.9	38.7	[illegible]0.0

*Average days outstanding

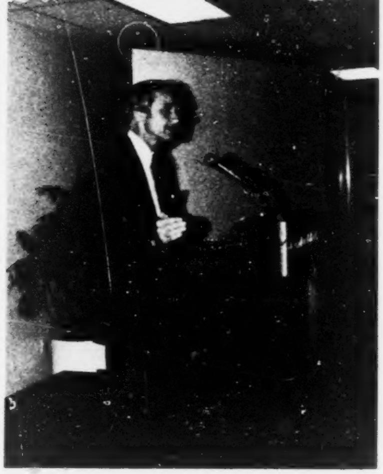


January sales took a spill as gains were offset by heavier losses . . .

SALES BY REGIONS (% change)	Jan.'81 vs. Dec. '80			Jan. '81 vs. Jan. '80			1 mo. '81 vs. 1 mo. '80		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	− 8	+ 3	− 4	+ 0	− 1	+ 0	+ 0	− 1	+ 0
Connecticut	−15	+35	+ 2	−16	+20	− 4	−16	+20	− 4
Massachusetts	−11	− 7	−10	+ 9	− 4	+ 6	+ 9	− 4	+ 6
MIDDLE ATLANTIC: N.Y., N.J., Pa.	− 2	+ 0	− 1	− 6	+ 0	− 3	− 6	+ 0	− 3
New York Metropolitan Area	+ 3	− 5	+ 0	+ 0	+ 1	+ 0	+ 0	+ 1	+ 0
Upstate New York	+ 2	+ 9	+ 5	+ 2	− 2	+ 0	+ 2	− 2	+ 0
Pennsylvania	−12	− 3	− 8	−20	+ 2	−11	−20	+ 2	−11
SOUTH ATLANTIC: Del., D.C., Md.,	− 9	− 7	− 8	+ 0	− 7	− 3	+ 0	− 7	− 3
Fla., Ga., N.C., S.C., Va., W.Va.	−11	+29	− 5	+ 0	+ 1	+ 0	+ 0	+ 1	+ 0
Georgia-Florida	− 2	−15	−10	− 1	− 9	− 6	− 1	− 9	− 6
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	+ 5	+ 9	+ 7	−13	− 7	−10	−13	− 7	−10
Indiana	+15	+43	+29	− 7	−19	−13	− 7	−19	−13
Wisconsin	− 6	− 3	− 5	−10	−17	−13	−10	−17	−13
Chicago	+ 3	+ 0	+ 2	−15	+ 0	− 8	−15	+ 0	− 8
Michigan	+ 6	+15	+10	−10	+16	+ 0	−10	+16	+ 0
Ohio	+16	+11	+14	−17	−20	−19	−17	−20	−19
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	− 9	− 1	− 5	− 9	+ 2	− 4	− 9	+ 2	− 4
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	+ 2	+30	+10	−17	− 9	−15	−17	− 9	−15
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	−11	+ 4	− 2	− 4	+20	+11	− 4	+20	+11
Texas	+ 1	+ 8	+ 5	+ 3	−10	− 4	+ 3	−10	− 4
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	+10	−25	− 8	−12	−13	−13	−12	−13	−13
PACIFIC: Calif., Ore., Wash.	− 2	+ 4	+ 1	+ 1	+11	+ 7	+ 1	+11	+ 7
L.A.-San Diego	+ 5	− 8	− 2	+ 3	+ 0	+ 2	+ 3	+ 0	+ 2
Oregon-Washington	− 5	+10	+ 3	+ 0	+17	+ 9	+ 0	+17	+ 9
U.S. TOTALS	− 3	+ 3	+ 0	− 5	+ 0	− 3	− 5	+ 0	− 3

Facts and opportunities . .

More on productivity



Productivity? It's output in labor, in capital, in materials and in energy combined.
—Grayson

Here's an update on The Big Picture. While it can hardly be called encouraging, with a little creative thought, the bare facts represent another sales tool.

The traditional solutions to solving America's economic troubles are not working and the only long-range solution of merit is increased productivity, says economist and chairman of the American Productivity Center Dr. C. Jackson Grayson. He contends that those traditional methods don't work. Grayson is the former head of the short-lived Wage and Price Commission under President Nixon in the early 1970's.

When prices are controlled, wages must also be controlled. But labor won't go for that.

"Voluntary appeals for self-restraint won't work either. They will lead to mandatory controls, and it is easier to get into those than it is to get out. No one can devise a wage-price control system that will work."

It is interesting to note that in 1974, Canadian Prime Minister Pierre Trudeau vowed that Canada would never have wage-price controls. They were introduced the following year. In February 1971, President Nixon said he'd never back wage-price controls. In August they were announced.

"They have never worked, yet we keep going back to them. Controls are political moves, not economic ones."

According to Grayson, higher productivity is the only answer.

"There is little doubt that productivity is one of the major economic variables of the 1980's. If productivity does not rise, higher prices, falling profits, unemployment, and a lower standard of living will result."

Grayson warns American businessmen not to wait for government action to improve productivity.

"It is essential that American Business lead the productivity improvement effort. While there are steps that government can take, businesses of every kind and size must recognize their role in putting a halt to the declining productivity rate in this country."

Grayson reminds corporations that their cost pressures—wages, product liability insurance, energy taxes—are all going up. Productivity improvement can offset these pressures. *Costs minus productivity equals prices.* That's how the equation goes. Higher productivity holds prices down.

The United States had an average productivity growth rate of 3.3% between 1948-1967. That figure dipped to 1.5% between 1968-1978. Meanwhile, Japan, France, Italy, Germany, Sweden, Canada and Great Britain have developed higher productivity figures than the U.S. The U.S. is still the most productive nation on earth, but the competition is catching up. At this rate, in 1986, France will pass the U.S. In 1987, Germany will. In 1988, Japan will jump ahead.

Why? The reasons are many, according to Grayson: reduced investment, a larger service sector, costly government regulations, environmental expenditures, labor restrictions, and work disincentives. Grayson bemoans the fact that individual firms, in general, have no productivity programs, often only short-lived productivity drives. Even these drives have inadequate ways to measure their built-in effectiveness.

Many people don't really know how to define productivity, claims Grayson. It's not measured solely in terms of output, input, or output per manhour. It's output in labor, output in capital, output in materials, and output in energy, combined.

"You have to calculate each figure independently and totally," says Grayson. "Change your accounting system to accommodate financial and physical data needed to determine these figures."

Unions can help, too. Grayson sees labor unions playing a key role in this concerted national effort to increase productivity.

Grayson believes that labor has not only built in incentives to help with the productivity improvement effort, but responsibilities as well. "If labor doesn't help bake the economic pie, there won't be a pie to divide."

Grayson noted that productivity centers and other non-profit, non-partisan agencies are financed in part by the government. In fact, the Japanese Productivity Center was started with the help of funds given to Japan by the United States ($6 million).

"But there is no government though," smiles Grayson. "It needs a lot of help with productivity. Washington won't solve our productivity problems. Individuals will." □

Selling with statistics. . .

Productivity statistics may seem too cosmic for the typical distributor salesman, but by topping them off with some creative selling, they can be one of the most important tools in his sales kit, since they point up major opportunities for spotting prospects or parlaying so-so accounts into bigger ones. Statistics such as those shown here point to those industries (1) that are aware of their productivity problems and are busily affecting change (Example: tobacco at +7.2) or (2) that are suffering productivity pains and could be ripe for improvement (Example: mining at −8.7). The industries showing the positive changes are obviously investing in improvements and may offer an open door to a distributor salesman with creative ideas. And industries showing negative change are either short of improvement capital or just aren't willing to make the required investment but may be more than willing to listen to the distributor salesman who can offer them the kind of relatively inexpensive recommendations and services that are unique to industrial distributors.

Prospects and profitability. . .

Percent change in productivity over previous 5 years ('73-'78)

INDUSTRY	LABOR (output per hr)	CAPITAL (output per unit of capital)
Private domestic	0.2%	−1.1%
Farming	0.1	4.6
Manufacturing	−0.7	0.9
Food	−0.9	1.6
Tobacco	3.8	7.2
Textiles	2.5	3.1
Apparel	1.4	4.1
Lumber	−1.0	0.4
Furniture	0.5	7.3
Paper	−0.1	2.8
Printing & publishing	1.3	−0.2
Chemicals	−0.2	3.3
Petroleum	−3.6	−4.2
Rubber	1.4	1.2
Leather	2.2	3.1
Stone, clay & glass	−0.6	−0.1
Primary metals	0.1	−0.5
Fabricated metals	0.2	0.7
Machinery, exc. elec.	0.5	0.9
Electrical machinery	0.4	1.4
Transportation equip.	−8.2	−2.0
Instruments	1.8	−0.9
Miscellaneous mfg.	−0.8	1.5
Non-farm non-mfg	0.4	−2.4
Mining	0.7	−8.7
Construction	2.3	−7.5
Transportation	2.7	−1.2
Railroad	5.8	2.8
Nonrail	1.2	−2.2
Communications	3.0	2.3
Public utilities	−2.4	−3.7
Trade	−0.0	−0.4
Services	0.3	−5.0

Obstacles to productivity. . .

Workers

- Job loss fear
- Fear of harder work
- No benefits for them with higher production
- No involvement of them in determining productivity programs

Management

- Thinks workers are "goof-offs"
- Fears loss of authority
- Fears loss of their jobs
- Lacks knowledge in implementing programs

A program for productivity. . .

- Get top management involved
- Organize a program for your company
- Define productivity so everyone understands it
- Devise a sure way of measuring productivity
- Develop employee training programs
- Set company productivity goals
- Establish lines of communication with employees
- Have periodic evaluations of your productivity programs
- Have information resources available for reference
- Your own employees know more about improving productivity than any consultant, but they hold back. Encourage them to contribute.

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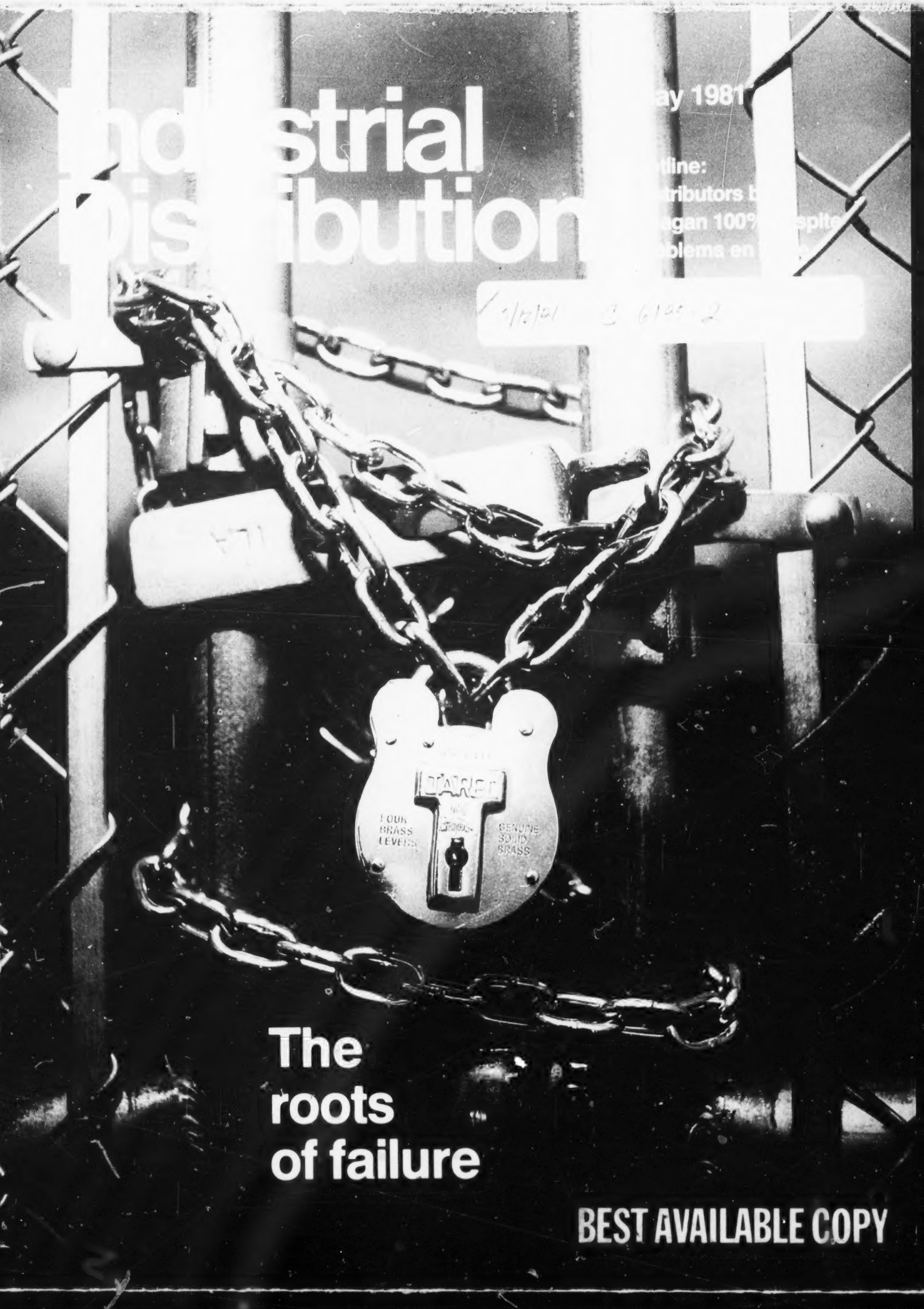

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The roots of failure

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A Morgan-Grampian publication

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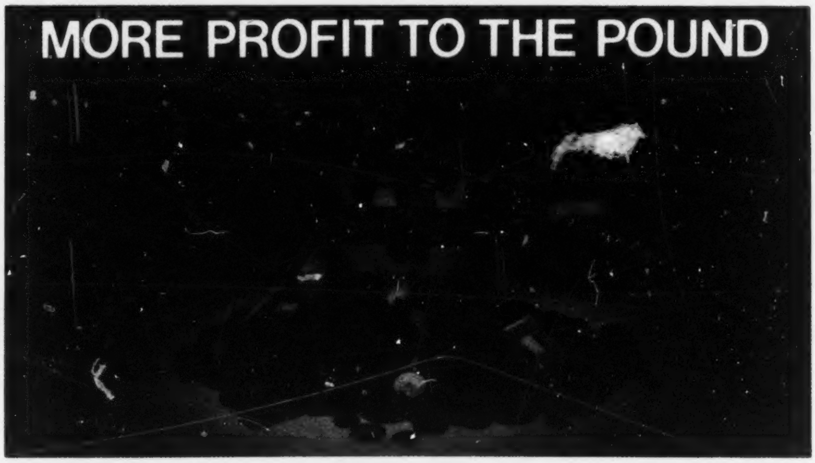

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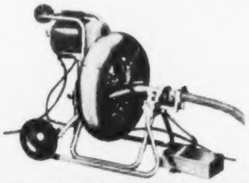

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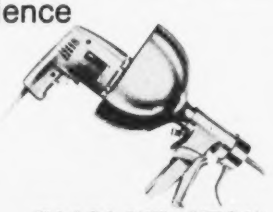

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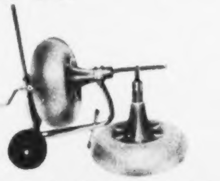

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Indicators. . .

Purchases of industrial supplies and equipment in February showed a mixed pattern around the country, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure of 135.6 put the seasonally adjusted, two-month moving average 3.3 points (2.4%) below that of January and 3.7 points (2.7%) below the year-before level. . .The *NIDA-SIDA Inflation Index* for February was 139.4, up 1.6 points (1.2%) from January and 14 points (11.2%) from the year-before level. Regional sales, comparing February to month-before and year-before levels, were: east, 137.5, down 6.6% and 8.9%; midwest, 126.3, up 0.9% and down 2.2%; west, 166.7, unchanged and up 0.3%; south, 132, down 8% and 0.7%. . .The *ASMMA New Order Index* stood at 113.8, up 2.2 points (2%) from January but down 6.4 points (53.%) from February 1980. . .The *FRB Durable Manufacturers Index* dropped to 135.8, down 0.8 of a point. . .The *SIDA Monthly Sales Trend Report* showed a 6% increase in February-to-January sales and a 3.2% increase in February 1981 sales when compared to the level of a year ago. Sales in the first two months of 1981 dropped 0.3% when compared to the same period a year ago. . .The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 13.2 points (5.5%) below January's and 9.7 points (4.1%) below that of February 1980. . .New orders for machine tools in February totaled $276.7 million, off 1.5% from January and down 44.8% from the figure a year ago, according to estimates compiled by the National Machine Tool Builders' Assn. . . .The National Welding Supply Assn.'s *Welding Supply Index* posted its third consecutive increase in February, rising to 148.6, up 5.2 points from January. . .The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 126.7 in February, up 9.9 points (8.5%) from January but down 5 points (3.8%) from that of the year before. . . New orders were up in February, according to a business survey by the National Assn. of Purchasing Management.□

February sales slowly climb

Sales accelerated last February, but the pace wasn't brisk enough to overcome January losses. According to *Regional Report* correspondents, February totals were up 7% for all distributors when compared to January, but only scraped year-ago levels.

Posting the most dramatic monthly gains were regions previously plagued by industrial sluggishness. Pennsylvania and Indiana saw 18% sales upswings. Wisconsin checked in at 17% above January's figure. Chicago and Connecticut followed with 16% increases.

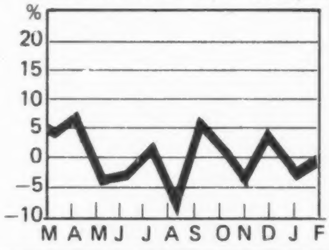
Even so, year-to-date sales weakened, and were dragged below 1980 levels. Specialists fared better with a 1% drop than general liners, whose sales declined 10%.

In states of heavy decline were the West North Central and Mountain regions, witnessing sales skids of 19% and 10%, respectively, for the year to date.

Paralleling distributor trends, the Dept. of Commerce reports that while factory inventories expanded 1.1% in February, new factory orders declined 0.5% to a seasonally adjusted $161.32 billion. Analysts predict little or no economic growth for the second quarter of 1981. □

RECEIVABLES*	Feb. 1981 Gen.	Feb. 1981 Spec.	Feb. 1980 Gen.	Feb. 1980 Spec.
New England	40.4	42.0	45.8	41.0
Middle Atlantic	41.2	44.1	41.6	45.8
South Atlantic	36.3	38 5	39.1	37.2
East North Central	42.1	38.7	42.2	41.8
East South Central	44.3	38.5	42.8	38.5
West North Central	42.0	45.6	42.6	47.3
West South Central	41.4	39.3	40.6	38.8
Mountain	43.7	44.1	43.5	44.0
Pacific	42.0	42.3	44.8	42.7
National	41.5	41.4	42.6	41.9

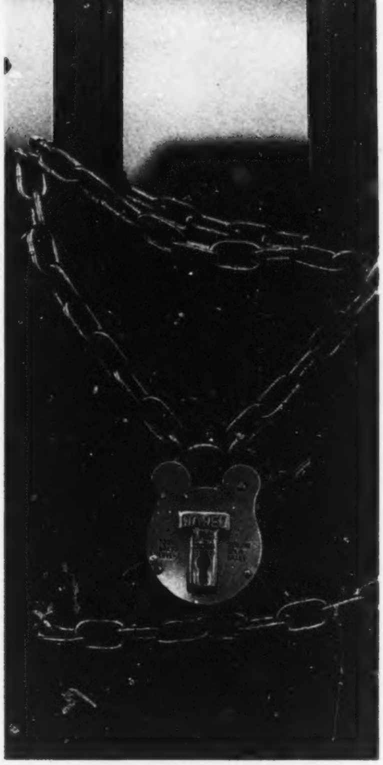
*Average days outstanding



% change in sales when compared with same month in previous year

February sales reversed a decline only to match last year's totals . . .

SALES BY REGIONS (% change)	Feb.'81 vs. Jan. '81 Gen.	Spec.	Both	Feb. '81 vs. Feb. '80 Gen.	Spec.	Both	2 mos. '81 vs. 2 mos. '80 Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	+ 4	+19	+10	− 2	− 4	− 3	− 7	− 3	− 5
Connecticut	+ 6	+25	+16	+14	− 8	+ 3	+ 0	− 6	− 2
Massachusetts	+ 3	+12	+ 6	− 7	+ 0	− 5	−11	+ 0	− 7
MIDDLE ATLANTIC: N.Y., N.J., Pa.	+ 6	+ 4	+ 5	+ 3	+ 6	+ 4	− 2	− 4	− 3
New York Metropolitan Area	+ 5	− 2	+ 3	+19	−12	+ 9	+ 9	− 4	+ 5
Upstate New York	−15	− 2	−10	− 8	+15	+ 1	+ 0	− 4	− 2
Pennsylvania	+18	+34	+18	− 6	+16	+ 1	−15	− 4	−11
SOUTH ATLANTIC: Del., D.C., Md.,	+ 8	+13	+10	− 8	+ 3	− 4	− 9	− 2	− 6
Fla., Ga., N.C., S.C., Va., W.Va.	+ 4	+ 8	+ 6	−16	+ 4	− 8	−16	+ 0	−10
Georgia-Florida	+12	+18	+14	+ 0	+ 1	+ 0	− 1	− 4	− 2
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	+ 2	+19	+11	− 6	+ 8	+ 1	− 7	− 2	− 5
Indiana	+18	+17	+18	+10	+ 7	+ 9	+ 7	− 4	+ 2
Wisconsin	+12	+21	+17	−25	−17	−21	−23	−19	−21
Chicago	− 3	+25	+16	− 2	+23	+15	− 4	− 1	− 2
Michigan	− 4	+18	+ 5	− 1	+22	+ 8	− 4	+21	+ 6
Ohio	−15	+27	+ 6	− 3	− 1	− 2	+ 0	−14	− 7
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	+ 4	− 6	− 1	− 3	−15	− 9	− 8	− 6	− 7
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	+ 3	+14	+ 7	−25	− 3	−15	−26	− 5	−19
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	+ 8	+10	+ 9	−14	+31	+18	−20	+10	+ 1
Texas	—	+ 7	—	—	+12	—	—	− 3	—
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	−21	+ 0	− 7	−23	+27	+10	−19	− 6	−10
PACIFIC: Calif., Ore., Wash.	+ 2	+ 5	+ 4	− 3	+ 4	+ 1	− 3	+ 2	− 1
L.A.-San Diego	− 7	− 1	− 4	+ 5	− 4	+ 1	+11	− 7	+ 3
Oregon-Washington	+ 4	+ 8	+ 7	−10	+ 9	− 1	− 5	+ 8	+ 2
U.S. TOTALS	+ 5	+ 9	+ 7	− 5	+ 5	+ 0	−10	− 1	− 5



The roots of failure

Business failure is an insidious, creeping ailment that over months or years can debilitate a business until it is on the brink of disaster. An alarming upsurge in recent failures among distributors and wholesalers indicates clearly that members of this industry need to be doubly alert to the many diverse dangers signaling that a company is in a decline.

Unlike the Chrysler Corp., a distributor can't count on the Federal Government to bail him out when he faces bankruptcy.

Whether he thrives or survives depends on how well he plays by the hard and fast rules of the marketplace. As double-digit inflation and tight money policies squeeze even those companies with better capitalization than most distributors can muster, the rules are toughening while the margin for error grows smaller.

No figures are kept on the number of distributors that have closed their doors within the last year. But after a three-year decline, the failure rate of all businesses began climbing in 1979 and rose again last year, according to Dun & Bradstreet's *Business Failure Record.* In the first 10 weeks of this year, business bankruptcy filings soared to 2933, a gain of 63% from the comparable period last year and the highest number reported for the period since 1963. In 1979, the rate of business failures per 10,000 was 28, up from 24 in 1978. In 1980, D & B projects a rate of 44 per 10,000. What's more, Dun & Bradstreet ominously points out, wholesalers led all commercial and industrial categories with a 22.7% increase in business failures in 1979, climbing from 740 to a three-year peak of 908. In its assessment of the situation, the report says heavy operating expenses in 1979 played a growing role among wholesalers; twice as many casualties were traced to this problem as in 1978. Adds the report: "With credit tightening, receivables difficulties were cited in the largest percentage of failures in over a decade, with manufacturers and wholesalers hurt the most."

The failures do not represent businesses that have been discontinued, but only concerns involved in court proceedings or voluntary actions involving loss to creditors. Nevertheless, the figures pinpoint the most vulnerable industries. And distribution's vulnerability is high, say two Ohio State University professors who recently completed a study of risk in wholesale-distribution.

"We found the overall riskiness in wholesale-distribution much higher than we expected," conclude Drs. Roger K. Harvey and Peter L. Mullins in a study that will be published by the *Distribution Research and Education Foundation,* a research arm of the National Association of Wholesaler-Distributors. "Generally," say the authors, "risk in wholesale distribution was at least as high as in manufacturing without the benefit of higher returns." A leading cause of the high operating risk—and one that seems to dovetail with the Dun & Bradstreet report—is the rigid cost and expense structure that they say "has crept into the industry." These are fixed costs, such as computerization and labor, that don't fall when sales fall and can tighten the screws on a distributor when the economy goes awry. Still another danger signal that indicates distributors are in deeper financial trouble than they were before and more vulnerable than five years ago is that their debt-equity ratio has climbed, according to Harvey. From 1975 to 1979, the ratio rose from 1.25:1 to 1.4:1. That means that in 1979 a distributor allowed $1.40 in debt for every $1 in equity.

Some distributors have succumbed to these risks. But their failures and attempts to pull out of a nosedive toward bankruptcy provide valuable lessons on how others can avoid making the same mistakes before it's too late. Case histories of companies uncovered by ***ID*** show a wide range of management failures and in one situation a dramatic recovery by a firm on the verge of collapse.

Fall of a giant

The failure of a company like Squier, Schilling & Skiff, a Berkeley Heights, N.J., general liner founded in 1923 represents the decline of "one of the premier distributors of the 40's," says Robert Clifton, executive vice president of the 750-member National Industrial Distributors Assn. In September 1980, an auction was held to liquidate the inventory of the company, which in 1974 reached a peak sales volume of $6.6 million. The company had operated with one branch and two subsidiaries and employed 61 people. But it began to lose its footing in sales after a series of ownership changes in the 70's. In 1977, sales volume had dropped to $5.7 million. The 61 employees, says a competitor, were twice what the firm needed to earn its net profit of $65,143.

"You hate to see a competitor go out of business," says Gordon Lindsay, president of Abrasive Machine & Supply Co., "even if you don't like him. There's always the feeling that it could happen to you." Two officers of the fallen company, president Robert Sullivan and vice president William Willoughby, could not be reached for comment.

Although vendors also refused to talk about the company's closing, they revealed that they began to withdraw their lines from the firm after they saw sales faltering. Ex-competitors, reviewing the firm's failure, saw it mainly as a failure of management. "It lost its position in the market. It didn't put up a battle." This from Abrasive Machine & Supply chairman James Lindsay, Gordon's father, who, operating from nearby Newark, N.J., shared the same marketplace. "Management seemed lackadaisical," recalls Lindsay. "For awhile, they were only filling orders they had on hand, as I understand it. Finally, they gracefully got out of the business."

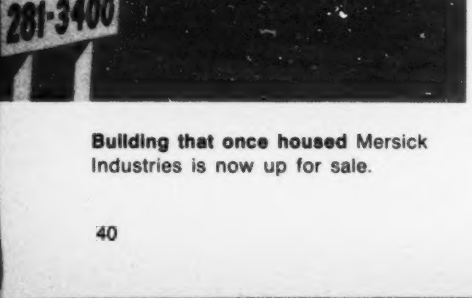
The problem at Squier, Schilling & Skiff—an alleged lack of a strong CEO to revitalize a flagging company—is held

to be one of the most common reasons behind failures. This is especially true for closely held companies. Although the firm may not be in poor financial shape or hovering on the brink of bankruptcy, it is forced to close down. Often staff changes and new directions are imposed on the old company by the new parent.

Diamond Hill Group of Florence, S.C., has built its distribution business on acquiring companies plagued with problems of succession. In the last five years, it has bought out three organizations with such problems. They are Carolina Machinery and Supply (now Camasco), Raleigh, N.C.; O'Brian-Mace, Florence, S.C.; and Hyman Supply, Wilmington, N.C.

Knox Sherer, executive vice president of Diamond Hill, says that attracting promising young talent into the business is one of the biggest stumbling blocks confronting distribution. "The problem comes in medium-sized companies that have grown out of small ones. By the time the founding father is ready to retire, the operation has outgrown the mom-and-pop stage. If there's no one in the family willing to take over, transition becomes a major problem. The key people coming along don't have the money to buy it. Often it's hard to find a small to mid-sized distributor who can finance the purchase. So selling out to a large corporation is the only way to go," says Sherer.

Cortland Sims was operations manager for Hyman Supply when its owner, Charles M. Harrington Sr., sold it to Diamond Hill. Recalls Sims, "We didn't know what was happening in the beginning. It was all transacted with the office door closed. We were on pins and needles because we knew something was going on, but not exactly what. We were shocked when Harrington came out and told us he'd sold the company. He'd been saying for a long time that he would, but we didn't think he'd actually do it."



Building that once housed Mersick Industries is now up for sale.

Lack of aggressiveness

The reason Harrington sold Hyman Supply is typical. According to Sims, Harrington's son was active in the business but lacked the interest and aggressiveness to carry the ball. But the problem for Hyman and many other distributors that have to sell out runs even deeper.

"We were established in 1902," Sims said, "and were one of the charter members of Southern Industrial Distributors Assn. We were the oldest mill supply house in the state. But we were traditionally saw mill-oriented. For the 30 years I'd been with the company, it constituted 90% of our business."

When saw mills began closing as the lumber industry declined, Hyman Supply failed to diversify. Instead, it concentrated on seeking more saw mill accounts. It stagnated because its market was so limited. Although Sims and other employees resented Harrington's decision to sell and Diamond Hill's takeover at first, he now believes the move may have saved the company's life.

"We thought we were making money, but saw mills are nonexistent now as a market force. When Harrington had the company, we didn't have the sales staff and weren't aggressive enough to make the change. Now we've got all that. We've changed lines, became total-industry-oriented and now serve accounts such as Federal Paperboard, DuPont, GE and eight national fertilizer companies," says Sims.

Diamond Hill's Sherer agrees. All three distributorships the company bought faced similar problems and two of them, O'Brian-Mace and Carolina Machinery and Supply, each had exceeded its growth potential. "When a distributor grows and has to start behaving more like a corporation, certain things happen," said Sherer. "First he starts competing with other large distributors and reaches the point where he needs fresh capital to keep going. Last year our LIFO index was 10%, meaning you need that much more invested in inventory to break even. A small distributor can't lay his hands on that kind of cash, and he can't afford to borrow it. Combine that with factors like the more than 400% increase in FICA taxes in the past 10 years that translate down to the bottom line, and you got trouble."

As with Hyman and its overreliance on saw mills, Sherer found that the companies acquired lacked the competitive edge to sustain growth.

"When we bought Carolina Machinery and Supply, they had a home office and one branch, and they weren't but 60 miles apart. Now that just doesn't make any sense. So we closed the branch and

Why distributors fail...

- Undercapitalization
- Lack of competent successors
- Lack of administrative skills
- Changing markets
- Poor credit policies
- Lack of credit lines
- Poor inventory management
- Poor purchasing policies
- Erratic deliveries
- Lack of marketing knowhow
- Expansion beyond resources or market potential
- Poor internal controls
- Demotivation
- Ineffective sales effort
- Poor or neglected merchandising
- Excessive operating costs
- Poor pricing policies
- Excess capital and fixed assets
- Wrong location
- Inflated top-level compensation
- Fraud
- Disaster

opened another in a more valuable location. Distributors get into such situations and their sales go up, but their profitability drops. You might need $1 million to turn a company around, and most can't raise it. So when the time comes for the owner to retire, he's got to sell because he hasn't been able to keep up with the times. I hate to say that selling out is a way to keep your company from going under, but it is," says Sherer.

Planning for succession

But what about the distributor who has spent most of a lifetime building a successful business and wants to keep it in the family? Too often, says Leon Danco, a management consultant and founder of the Center for Family Business, Cleveland, a distributor doesn't spend enough time or energy grooming an heir apparent. "The distributor doesn't realize that time and age become partners in his business. He has to plan on its continuity and that requires that he associate with and accept the advice of the most competent technical talent he can find rather than yes-men, people who corroborate his own biases." Among the reasons that distributors founder, he points out, is that they often have no organization charts and their accounting systems tend more to obscure data than inform their managers.

"And he's a sucker for upward delegation," adds Danco. "His feeling of indispensability flatters his ego. He becomes a middle intestine in the decision process—everything has to run through him. So when he gets old and tired and his energy runs down, he doesn't have to die for the business to fail. He just has to get tired."

Danco urges distributors to accept the review of outsiders, perhaps the firm's board of directors, develop an accounting system that is informative rather than secretive, and "pick successors and install them before God picks the date." Because, he warns, "if the businessman doesn't put the same talent, love and energy into preserving the company as he did into building it up, then the continuity of his business will be determined by the executors and administrators of his estate on the way back from his funeral."

Some distributors never reach that stage because of problems that beset the company in its early years of growth. Employees at the Armstrong Supply Corp., Johnston, R.I., were suddenly out on the street after the owners of the firm filed a voluntary petition for bankruptcy under *Chapter VII* in February. Armstrong Supply was only two years old, started by Walter Armstrong after he purchased the assets of the industrial supply division of the Barker-Chadsey Co., a Providence distributor.

Armstrong could not be reached for comment, but an associate of his claims that the distributorship will be reorganized and launched again. According to former employees, the general liner began losing customers during the past year because of excessive backordering. Salesmen received complaints from customers whose orders had not been delivered after a month.

A Dun & Bradstreet report indicates that Armstrong Supply employed 20 persons and had an annual sales volume of $3.1 million, showing a gross profit of $938,312 and a net income of $101,437 last year.

Averting disaster

One company that rectified its mistakes before it was too late is Wimberly & Thomas Hardware Co., Inc., Birmingham, Ala. It was the firm's failure to diversify that appears to have led to its initial problems. For years, the company serviced the basic industries of Jefferson County, concentrating on U.S. Steel, says Andrew Shackelford, president. But when the mill closed, annual sales figures plummeted steeply.

MERSICK'S
COUNTERS

Post-mortem on a failure...

A 137-year business record counts for nothing when a distributor fails to provide his customers with the service they have come to expect.

Mersick Industries, a Connecticut general liner that traced its roots to 1840, folded in 1977. One of the largest distributors in the state, Mersick maintained five branches and had an estimated sales volume of $20 million prior to its closure because of creditor problems.

The building that once housed Mersick's headquarters in North Haven has a for-sale sign posted on its lawn. Since the whereabouts of Jordan Friedman, who ran the company for more than three years before it collapsed, are unknown, he could not be reached for comment.

But one head-to-head competitor summed up the company's malaise this way: "They didn't keep pace with the service needs and other requirements of their customers. They were not able to train their employees in and develop a system to get the material into the customer's hands at a competitive price. They built a warehouse that was big enough to handle the entire industrial supply inventory of Connecticut. But when a guy calls in and orders a couple of drills one afternoon, he wants them the next day, not in a week."

The situation worsened in the final six months as suppliers began holding up on shipments, according to Robert Pfeifer, former salesman. "We couldn't get stuff from our manufacturers."

Meanwhile, the final chapter on Mersick is being written in a Massachusetts superior court where Friedman is being sued by the Maryland National Industrial Finance Corp. The lending organization is seeking to recover $1.25 million in unpaid loans from companies in which Friedman had a financial interest. It has accused him of misrepresenting the worth of inventory and accounts receivable on which the loans were based, according to the plaintiff's attorney.

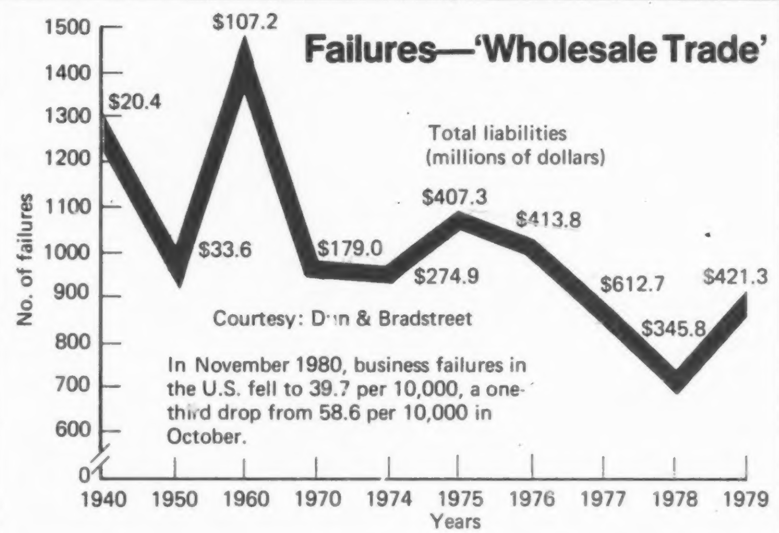
"We went from $3.6 million down to $2 million almost overnight. Not only was that 35% sales drop bad enough, but we were stuck with a lot of specialized inventory that we had to get rid of. We'd stocked up for a customer and now he couldn't take it off our hands."

Wimberly & Thomas was stuck, and disposing of the customized inventory wan't easy. Shackelford forced suppliers to take back stock. Some specialized tools were modified and sold elsewhere.

"We had to lay off warehouse people during the slump, but we tried to preserve our sales staff because of their specialized talents and personal rapport they had with area businessmen," he adds. "I was worried because I kept thinking things would improve sooner than they did. And I think we would have seen an earlier surge in business had not the economy gone soft."

The recovery was difficult largely because Shackelford couldn't expand into new markets. He said that every distributor in Birmingham services basic industries that dominate the area—steel, foundries and paper mills. Instead, he instructed his salesmen to switch to new accounts, diversifying his customer list rather than the industries served. After an uphill battle, Shackelford has brought Wimberly & Thomas back to where sales almost match those the company enjoyed before the mill closed.

Although Shackelford pulled his company out of a financial bog, many distributors can't. According to Caldwell Marks, president of the 140-outlet Motion Industries of Irondale, Ala., distributors get into trouble because they lack the proper accounting procedures and don't know what it takes to stay profitable.



Courtesy: Dun & Bradstreet

In November 1980, business failures in the U.S. fell to 39.7 per 10,000, a one-third drop from 58.6 per 10,000 in October.

"We've bought out eight or nine distributorships since we were founded in 1953. Some have been small and some otherwise. But every one we've purchased or even looked at has been in serious financial trouble. They lack proper controls because often they rely on accounting firms to do their bookwork. General ledgers, payrolls and receivables are always loose. It gets them into the worst trouble," said Marks.

When he scouts a company he may acquire, Marks is more interested in sales strength than financial strength. "Financial trouble means management trouble," he points out, "and we can correct that. But we can't replace the marketplace image."

Don't blame soggy sales

Although Dun & Bradstreet credit experts attribute most business failures to inadequate sales, Marks believes distributors fail primarily for other reasons. "Few fail because they don't sell enough. Distributors are often started by salesmen," he says. "They drive sales up but lack the financial expertise to make a company go. They grow too fast internally. They find themselves competing with bigger houses and on a price basis. They need capital, and since no one wants to invest in a closely held company in which he'd have a minority interest,

If bankruptcy is inevitable...

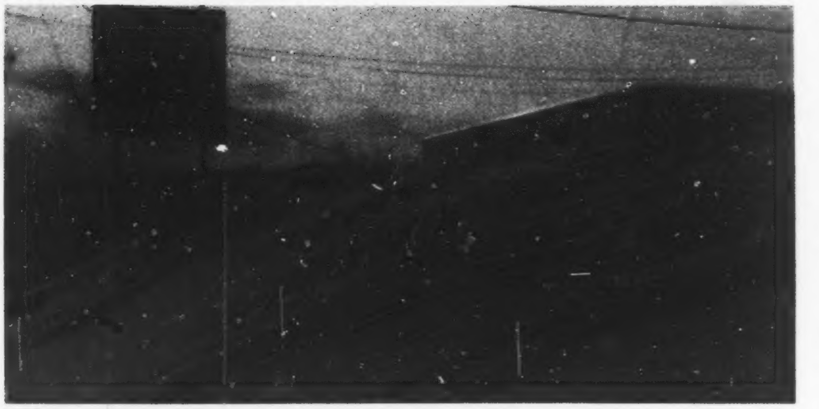
Following is an explanation of how a business may be reborn after it has been forced into bankruptcy. The statement is excerpted from National Assn. of Credit Management's *Credit Manual of Commercial Laws.*

One of the major changes under the new Bankruptcy Code is the consolidation of former Chapters X and XI into a single reorganization Chapter—Chapter 11. Chapter X under the former Bankruptcy Act was designed for the thorough reorganization of the public company. It comtemplated rigid and formalized procedures and the imposition of strict financial rules governing a plan of reorganization. Chapter XI of the old act was originally designed for use by the non-public small business. Chapter XI contained a faster procedure for an arrangement of the debtor's unsecured debt, but the secured debt structure could not be altered. Chapter 11 of the new Code attempts to combine the completeness of Chapter X with the speed and greater flexibility of Chapter XI.

Proceedings under Chapter 11 are designated reorganizations, and are available to all who are eligible for liquidation proceedings as discussed above, except stockholders and commodity brokers, and railroads, and may affect the rights of all creditors, secured or unsecured, and stockholders as well. The purpose of a business reorganization case, unlike a liquidation case, is to restructure the finances of a business so that it may continue to operate, pay creditors and produce a return for its stockholders. The purpose of a reorganization or arrangement case for a debtor is to formulate, and have confirmed, a reorganization plan so that it can continue in business.

68
CLOSED
ER
ENTRANCE

Sign at this bankrupt distributor serves as a grim warning of what can happen.



The gates were open at Armstrong Supply Corp., but the firm was closed for business after its owner filed for bankruptcy earlier this year.

distributors have to borrow. At today's interest rates, it'll catch up with you. Unfortunately, many distributors who get into trouble are too emotionally involved with their companies. They fail because they just don't know when to quit and sell out."

The high cost of borrowing money to stay afloat is putting added strain on distribution, an industry already prone to high risk, say Ohio State's Harvey and Mullins, who are also members of a management consultant firm. They report that they have been besieged with inquiries concerning cash flow problems by distributors who are increasingly caught up in the swirl of high interest rates. "In the past, a distributor didn't have to do a lot of cash flow forecasting. But now distributors are being dealt a double whammy. The cost of money is keeping interest rates high. The second problem is that a distributor's chief assets—receivables and inventory—are so current. These assets are turning over in current dollars which have to be financed with current dollars from the bank," they explain. "It means that inflation is forcing distributors into a higher debt position to finance the higher price of current assets. As a result, even more current assets than before are being financed with borrowed money rather than through generated earnings."

In their study, the two educators also report that the risk is higher for distributors because they have "higher fixed costs than we thought would be the case. When there's an economic downturn, distributors are not able to lay off at administrative levels. They're locked into a lot of fixed costs such as computerization and automation. And when sales fall 10% to 15%, a distributor falls below the break-even point. He's unable to compensate for this decline."

That finding, among others, leads them to conclude that in the 80's, risk may be more important than return to wholesaler-distributors. For those distributors who don't make the correct management decisions, the stakes can be the business itself. □

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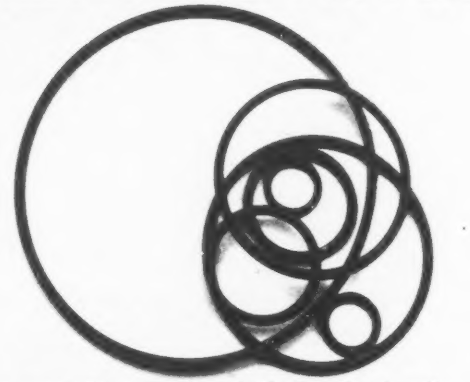

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Industrial Distribution

June 1981

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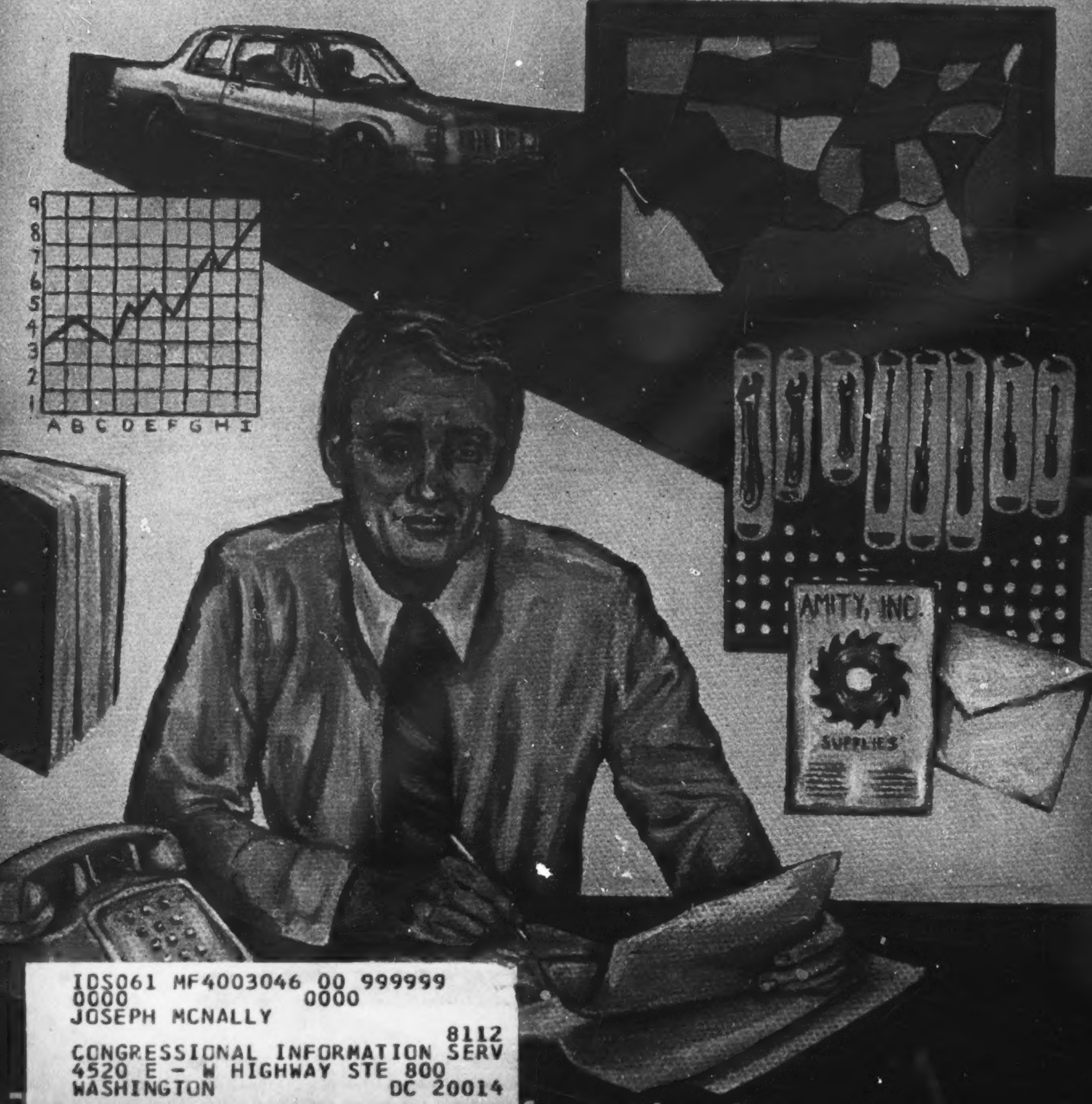
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Work injury costs skyrocketing; insurers see no end in sight

NEW YORK—Costs for worker compensation benefits are increasing by 100% to 300% in many states, according to protection consultants of Marsh & McLennan, Inc., the nation's largest insurance broker.

In the past six years, costs for worker compensation benefits have leaped more than 200% in eight states; 150% to 200% in nine; 100% to 150% in 13; and 50% to 100% in 18. Only three states reported payment costs escalating less than 50%.

According to the Dept. of Labor, costs have jumped far more rapidly than the incidence of work-related illnesses or accidents. For all wholesalers in 1975, the number of accidents per 100 full-time employees was 8.2, and the number of days lost, 49.5.

In the last year for which Government figures are available, 1979, the accident rate had crept up 9% to 8.8, and days lost were up 19%, to 59.1.

Totals for all manufacturing show work-related accidents pegged at 13.0 per 100 workers and days lost at 75.8, compared with 1979 figures, which stood at 13.3 and 90.2, respectively.

Sources at Marsh & McLennan say that other factors effect increases in cost. These include benefits for permanent and temporary disabilities, such as unlimited total disability, full medical coverage, no time limit on medical and rehabilitation benefits, greatly increased death benefits and full occupational disease coverage.

"As more states enact legislation extending benefits and medical costs continue to climb, workers' compensation expenditures will occupy an increasingly

[continued on page 14]

Congress weighs three bills proposing change in inventory taxes.

WASHINGTON—Three bills involving inventory valuation reform have been introduced in this session of Congress and are under consideration by the Senate Finance Committee and the House Ways and Means Committee.

Proponents of inventory tax reform are urging that the provisions of these bills be incorporated in President Reagan's *Omnibus Tax Reform Bill*, according to Alan Silver, a frequent ***ID*** contributor on inventory management. Congress is expected to vote on Reagan's tax bill by August or September.

S. 360, introduced by Sen. Daniel P. Moynihan (D-N.Y.), and *H.R. 2319*, introduced by Rep. Henry J. Nowak (D-N.Y.), would permit inventory write-downs on distressed merchandise by FIFO taxpayers without requiring that such allowances be based on a write-down of the selling prices below cost. In the landmark *Thor Power Tool* case in January 1979, the Supreme Court ruled that under present law, IRS regulations could impose such a requirement. A third bill, sponsored by Sen. Lowell P. Weicker Jr. (R-Conn.), would merely postpone until January 1981 the date of compliance with an IRS revenue procedure implementing the Supreme Court decision.

Silver urged that distributors write to their Congressmen expressing support for the bills introduced by Moynihan and Nowak. He plans to evaluate these bills in a later issue of ***ID***.□

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Circle 11

Compensation. . .

[continued from page 13]

larger part of all business budgets," said Fred A. Manuele, senior vice president of M&M.

Manuele added that detailed technical investigation by employers of the underlying causes of occupational illnesses and injuries, followed by implementation of procedures to control or eliminate the causes are the only ways to stem the surging tide of compensation payments, for which there is no end in sight.

"The Occupational Safety and Health Administration's failure to carefully examine the nature of injuries and illnesses for which claims are filed has resulted often in costly, inappropriate regulations that do not necessarily solve the problems. Employers must evaluate their own hazard control procedures. This will not only increase worker safety, but decrease insurance costs," Manuele concluded.□

Examples of increases in maximum weekly payments for permanent total disabilities and temporary total disabilities

State	1/75	1/81	% increase
Maine	$83.03	$399.00	381%
South Carolina	$63.00	$191.00	243%
Illinois	$96.90-$124.30	$376.33	240%
Massachusetts	$80.00	$245.48	207%
Oklahoma	$50.00-$60.00	$155.00	182%
Florida	$80.00	$228.00	185%
Iowa	$137.86	$384.00	179%
Wisconsin	$90.00	$249.00	177%
Louisiana	$65.00	$163.00	151%
Ohio	$112.00	$275.00	146%
Connecticut	$119.00	$285.00	139%

How a big distributor fought inflation in '80 by tightening its belt

NEWPORT NEWS, VA.—No distributor has to be reminded about how tough things were economically in 1980. Some of the largest companies—including the Noland Co.—saw their sales drop for the first time in years.

Noland, one of the nation's leading wholesalers with 61 branches in 11 southeastern states, experienced a 2% decline in sales, its first year-to-year drop since 1975. Despite the decline in sales, the company issued an upbeat annual report, pointing out that even in the face of reduced sales, it managed to raise its net income by 16%. Net totaled nearly $4.2 million, or $1.70 per share.

Sales in 1980 were $267.4 million. Heavily dependent on the health of the construction industry, Noland blamed a slump in this industry as one of the main reasons for its own problems. "The high rates of inflation and interest were particularly hard on residential construction," says the report. Despite these problems, the company says that it can see a silver lining. "In light of all this, our modest

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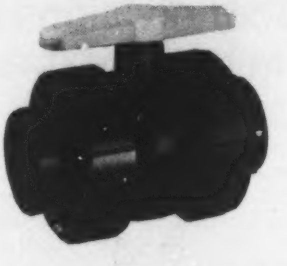

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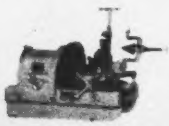

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Indicators. . .

Sales of industrial supplies and equipment in March showed substantial gains in all areas of the country except the midwest, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure of 138.9 put the seasonally adjusted, two-month moving average 3.3 points (2.4%) above that of February. The figure is also 2.6 points (1.9%) above the year-before level. . .The *NIDA-SIDA Inflation Index* for March was 140.8, up 1.4 points (1%) from February and 13.9 points (11%) from the year-before level. Regional sales, comparing March to month-before and year-before levels, were: east, 144.8, up 5.3% and down 2.9%; midwest, 125.8, down 0.3% and up 0.3%; west, 171.3, up 2.8% and up 3.9%; south, 140.3, up 6.3% and up 8.6%. . .The *ASMMA New Order Index* stood at 117.8, up 4.0 points (3.5%) from February and down 0.3 points (0.3%) from March 1980. . .The *FRB Durable Manufacturers Index* reached 141.3 in March, up 1.2 points. . .The *SIDA Monthly Sales Trend Report* showed a 10.5% increase in March-to-February sales and a 10.2% increase in March 1981 from March 1980 sales. Sales in the first three months of 1981 compared to the same period in 1980 showed a 5.4% increase. . . The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 2.4 points (1%) above February's and 27.9 points (13.9%) above that of March 1980. . .New orders for machine tools rose 27% during March to $350.7 million, but the figure was still 34% below March 1980, according to estimates compiled by the National Machine Tool Builders' Assn. . .The National Welding Supply Assn.'s *Welding Supply Index* rose to 162 in March, up from February's 148.6. . .The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 10.9 in March, up 0.4 points (0.3%) from February, but down 10.5 points (8.8%) from the year-ago level. . .National sales of flat conveyor belting are expected to jump by 5.1% for the second quarter of 1981 compared to the first quarter, according to the National Industrial Belting Assn. . .Leading indicators of the economy rose 1.4% in March, according to the U.S. Commerce Dept. ◻

March sales advance steadily

Distributors felt the effects of what looks like a strengthening economy as March sales sprang forward to the tune of 7% for all distributors over the same month of the previous year.

When compared with February sales, March increases create an even more dramatic scenario. Sales were up 19% for general liners and 7% for specialists, equating to an industry-wide upturn of 12%.

The previously recessed Mountain region saw the most sales action with a robust gain of 26%. But sales activity for the year to date barely reached last year's totals, and general liners still trail 1980 figures by 1%.

Sales for all distributors in 1981 still sag below 1980 levels, with the figure remaining depressed by 1%.

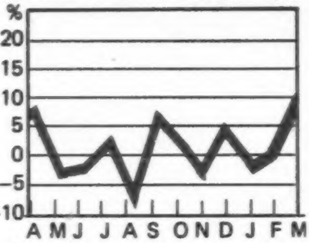
According to Dept. of Commerce statistics, distributor sales performance closely parallels current economic trends.

Durable goods orders in March climbed 1.3%. Yet economists remain skeptical about the nation's industrial strength because the rise actually was accounted for by transportation activity alone. All other industries witnessed a 1.7% decline in durable good orders. Many believe that economic stagnation prevails.□

RECEIVABLES*	March 1981 Gen.	March 1981 Spec.	March 1980 Gen.	March 1980 Spec.
New England	41.2	43.8	42.5	42.7
Middle Atlantic	38.4	37.4	36.9	42.1
South Atlantic	34.3	34.6	37.4	37.6
East North Central	44.1	40.9	42.5	41.4
East South Central	35.3	37.2	35.5	39.5
West North Central	39.1	34.2	39.8	36.1
West South Central	41.5	40.1	42.5	40.4
Mountain	38.5	38.3	38.6	39.9
Pacific	34.3	41.3	35.0	42.8
National	38.5	38.7	39.0	40.3

*Average days outstanding

% change in sales when compared with same month in previous year



March sales pulled ahead of year-ago totals after earlier heavy declines . . .

SALES BY REGIONS (% change)	March '81 vs. Feb. '81 Gen.	March '81 vs. Feb. '81 Spec.	March '81 vs. Feb. '81 Both	March '81 vs. March '80 Gen.	March '81 vs. March '80 Spec.	March '81 vs. March '80 Both	3 mos. '81 vs. 3 mos. '80 Gen.	3 mos. '81 vs. 3 mos. '80 Spec.	3 mos. '81 vs. 3 mos. '80 Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	+23	+13	+17	+1	+4	+2	+3	+0	+2
Connecticut	+33	−10	+19	+8	−9	+2	+3	+1	+2
Massachusetts	+16	+21	+19	−3	+8	+3	+3	+0	+2
MIDDLE ATLANTIC: N.Y., N.J., Pa.	+32	+9	+19	+11	+4	+7	−2	−2	−2
New York Metropolitan Area	+12	+22	+20	−5	+2	+0	−1	−6	−5
Upstate New York	+36	−5	+10	+7	+21	+16	+1	+3	+2
Pennsylvania	+30	−7	+12	+15	+9	+12	−3	+6	+2
SOUTH ATLANTIC: Del., D.C., Md.,	+10	+22	+17	+0	+21	+13	−6	+9	+3
Fla., Ga., N.C., S.C., Va., W.Va.	+14	+30	+22	+2	+25	+14	−6	+13	+4
Georgia-Florida	−4	+13	+2	−7	+17	+11	−7	+4	+1
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	+9	−6	+2	+1	−4	−1	−3	−8	−5
Indiana	−2	−15	−9	+16	−13	+2	+10	−15	−3
Wisconsin	+6	+15	+11	−10	+5	−3	−10	−9	−10
Chicago	+2	−21	−10	+1	−22	−11	+0	−18	−9
Michigan	+14	−16	−6	+4	+0	+1	−9	+4	+0
Ohio	+14	−7	+10	+3	−6	+1	−2	−10	−4
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	+8	+17	+14	−5	+11	+6	−6	−1	−3
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	+13	+25	+16	+3	+18	+7	−16	−7	−14
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	+20	+3	+16	+21	+10	+19	+3	+5	+4
Texas	+17	+21	+20	+18	+30	+26	+6	+9	+8
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	+14	+29	+26	+7	+14	+12	−1	+0	+0
PACIFIC: Calif., Ore., Wash.	+6	+20	+13	−4	+11	+4	−2	+9	+4
L.A.-San Diego	+18	+22	+20	+0	+18	+9	+3	+6	+5
Oregon-Washington	+8	+19	+14	−5	+13	+4	−4	+10	+3
U.S. TOTALS	+19	+7	+12	+4	+9	+7	−3	+1	−1

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Industrial Distribution

July 1981

Hotline: Distributors question impact of revitalization drive

The hands-on distributor — Making the customer's team

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Every salesman knows that letting the prospect see the product, handle it, use it on a trial basis, as often as not sells it. But on-the-spot problem solving is your own special edge.

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ASMMA sales trend report shows PT, cutting tools are biggest markets

CLEVELAND—Power transmission equipment and supplies and cutting tools are running neck-and-neck as the biggest markets for distributors, based on an annual report by the American Supply & Machinery Manufacturers' Assn. that analyzes sales through distribution channels.

Based on 165 reports submitted by 162 companies, power transmission equipment and supplies racked up a 1980 sales volume of $578,867,853. That figure represented nearly 16% of the $3.6 billion total sales volume of 12 classifications of industrial products.

Close behind, however, was the cutting tools group, which showed a sales volume of $561,792,531 or 15.5% of the volume in all classifications. Two other groups that also ranked high were industrial rubber goods and power tools and accessories. Industrial rubber goods, including hose, V-belts, flat belts, conveyor belts and other rubber products, showed a volume of $543,833,136 or nearly 15% of the total. Power tools and accessories ranked right behind this category with a volume of $527,478,352, 14.5% of the pie.

Other classifications in the study—*A Market Research and Economic Trend Analysis of Sales Through Industrial Distributors*—ranked as follows: fluid power systems and accessories, $433,660,913, 11.95%; hand tools, $299,703,234, 8.26%; all items not included in other classifications, $278,342,344, 7.67%; material handling equipment, $212,760,761, 5.86%; threaded products, $66,890,250, 1.84%; chemicals, including aerosols and lubricants, paints, tapes and brushes, $64,529,867, 1.78%; and saws and files, $60,842,060, 1.68%.

The report also provides a geographical breakdown of sales through industrial distributors by ranking the top states and counties and listing the top 50 major metropolitan trading areas. As one might expect, the Sunbelt states reflect the biggest increases in share of national sales volume while the upper Great Lakes states—still the largest of any region—are declining in their percentage of sales.

The group of states ringing the Great Lakes has 23.5% of the sales volume, but that's down from 26.1% for its average during 1977-79. Biggest increase was in the southwest central states—Texas, Oklahoma, Louisiana and Arkansas—where the percentage jumped from 13% to 14.9%. Texas is the leading state for sales through distributors, followed by California, Ohio, Illinois, Pennsylvania, Michigan, New York, Missouri, Indiana and Louisiana.

Los Angeles County is the leading county with 4.4% of the volume. It is followed by Cook (Chicago); Harris (Houston); Dallas (Dallas) and Cuyohoga (Cleveland).

These sales percentages for areas of the country are often called the *Industrial Supply Index*. According to the report, manufacturers and business analysts consider it "the most accurate yardstick for calculation of potential sales that is available to firms selling through industrial distributors." It is also considered among the most useful gages for measuring geographical distribution of the industrial market.

The report, which provides a detailed study of each county's share of the national sales volume in different product categories, can be used to evaluate a company's sales performance in any area. Copies are available to nonmembers at $100 each as long as supplies last. For details, contact ASMMA, 1230 Keith Building, Cleveland, Ohio, 44115.□

Regional share of distributor sales volume

Average (%)	**1977-78-79**	**1980**
Pacific coast states	12.4	13.2
Mountain states	4.1	4.4
Northwest central states	8.1	7.8
Southwest central states	13.0	14.9
Northeast central states	26.2	23.5
Southeast central states	6.0	5.7
South Atlantic coast	12.0	12.4
Mid-Atlantic states	13.4	12.9
New England	4.8	5.1

Source: *A Market Research and Economic Trend Analysis of Sales Through Industrial Distributors*, American Supply & Machinery Manufacturers' Assn.

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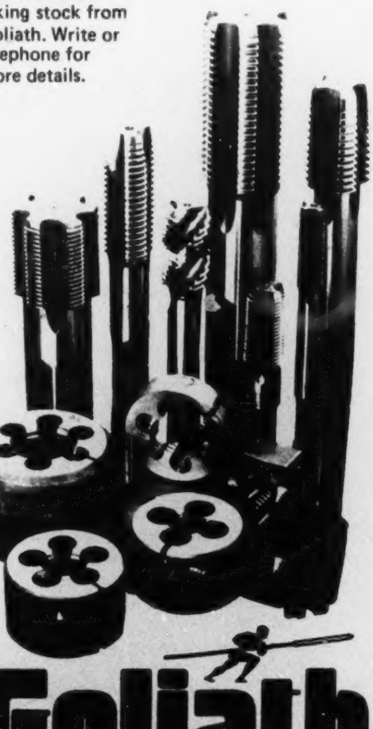

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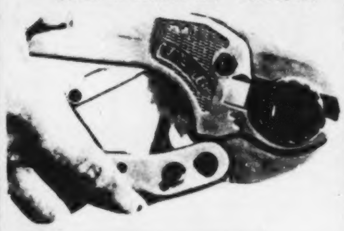

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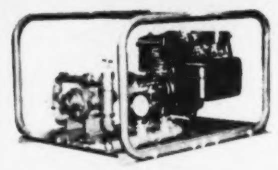

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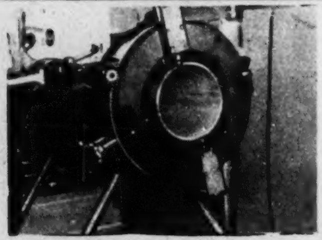

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Indicators...

Sales of industrial supplies and equipment in April jumped to a record 145.6, according to the *NIDA-SIDA Industrial Distribution Index*. All regions posted increases as the national figure put the seasonally adjusted, two-month moving average 6.7 points (4.8%) above March and 4.9 points (3.5%) above the year-before level...The *NIDA-SIDA Inflation Index* for April was 142.6, up 1.8 points (1.3%) from March and 13.1 points (10.1%) from the year-before level. Regional sales, comparing April to month-before and year-before levels, were: east, 151.8, up 4.8% but down 0.5%; midwest, 130.6, up 3.8% and 0.6%; west, 176.8, up 3.2% and 4.7%; south, 153.2, up 9.2% and 12.2%...The *ASMMA New Order Index* stood at 118.0, up 0.2 points (0.2%) from March and 1.9 points (1.6%) from April 1980...The *FRB Durable Manufacturers Index* reached 143.6 in April, up 1.2 points over March...The *SIDA Monthly Sales Trend Report* showed a 10% drop in April-to-March sales and a 7.2% increase in April 1981 over April 1980 sales. Sales in the first four months of 1981 compared to the same period in 1980 showed an 8.2% increase...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 1.1 points (0.5%) below March's and 27.5 points (13.7%) above that of a year ago...New orders for machine tools in April totaled $250.8 million, 17% below those of March and 33.2% down from a year ago, according to estimates compiled by the National Machine Tool Builders' Assn....The National Welding Supply Assn.'s *Welding Supply Index* rose to 165.7 in April, 2.3% above March's all-time high...The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 123.5 in April, up 3.9 points (3.3%) from March but down 3.8 points (3.0%) from a year ago...Purchasing managers are optimistic about a gradual improvement in the economy throughout the year. A report from the business survey committee of the National Assn. of Purchasing Management indicates that 39% of respondents feel the second quarter will improve on the first.□

Circle 14

April sales sustain growth

Distributors maintained the brisk sales pace set in March. With 7% across-the-board increases, April totals checked in at a level only slightly less impressive — up 6% when compared to the same month of the previous year.

Specialists led the way with a 10% sales jump, and general liners trailed, posting a more modest gain of 3%.

Nationwide year-to-date figures indicate that distributors are struggling to better 1980 sales performance as totals remain only 2% above last year's.

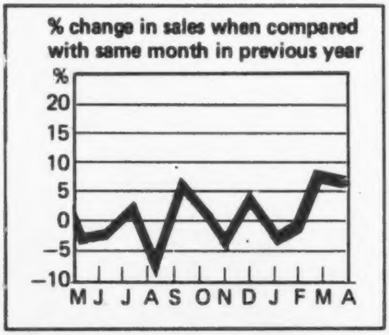
The most dramatic sales activity showed up in Texas, where April sales climbed 23% higher than those of the previous year, equating to a 14% annual upturn.

Indiana continued to show surprising economic resiliency by keeping year-to-date sales 15% ahead of 1980 totals, while much of the East North Central still faces an economy that means recession.

According to the Federal Reserve Board, distributor sales trends identically follow those set by factory output. After a 0.5% March increase, output slowed to a 0.4% upswing in April. The Fed said that this figure would have been as high as 0.7% if the coal strike had not created such a dampening effect.□

RECEIVABLES*	April 1981		April 1980	
	Gen.	Spec.	Gen.	Spec.
New England	39.5	42.1	39.9	39.7
Middle Atlantic	42.1	42.9	47.6	45.5
South Atlantic	36.3	39.5	35.8	41.5
East North Central	39.3	37.8	39.8	38.7
East South Central	44.1	40.0	42.1	41.4
West North Central	38.0	41.5	35.5	39.7
West South Central	43.6	40.8	41.0	40.9
Mountain	43.5	41.2	41.7	40.6
Pacific	37.0	39.9	36.3	40.8
National	40.1	40.6	40.0	41.0

*Average days outstanding

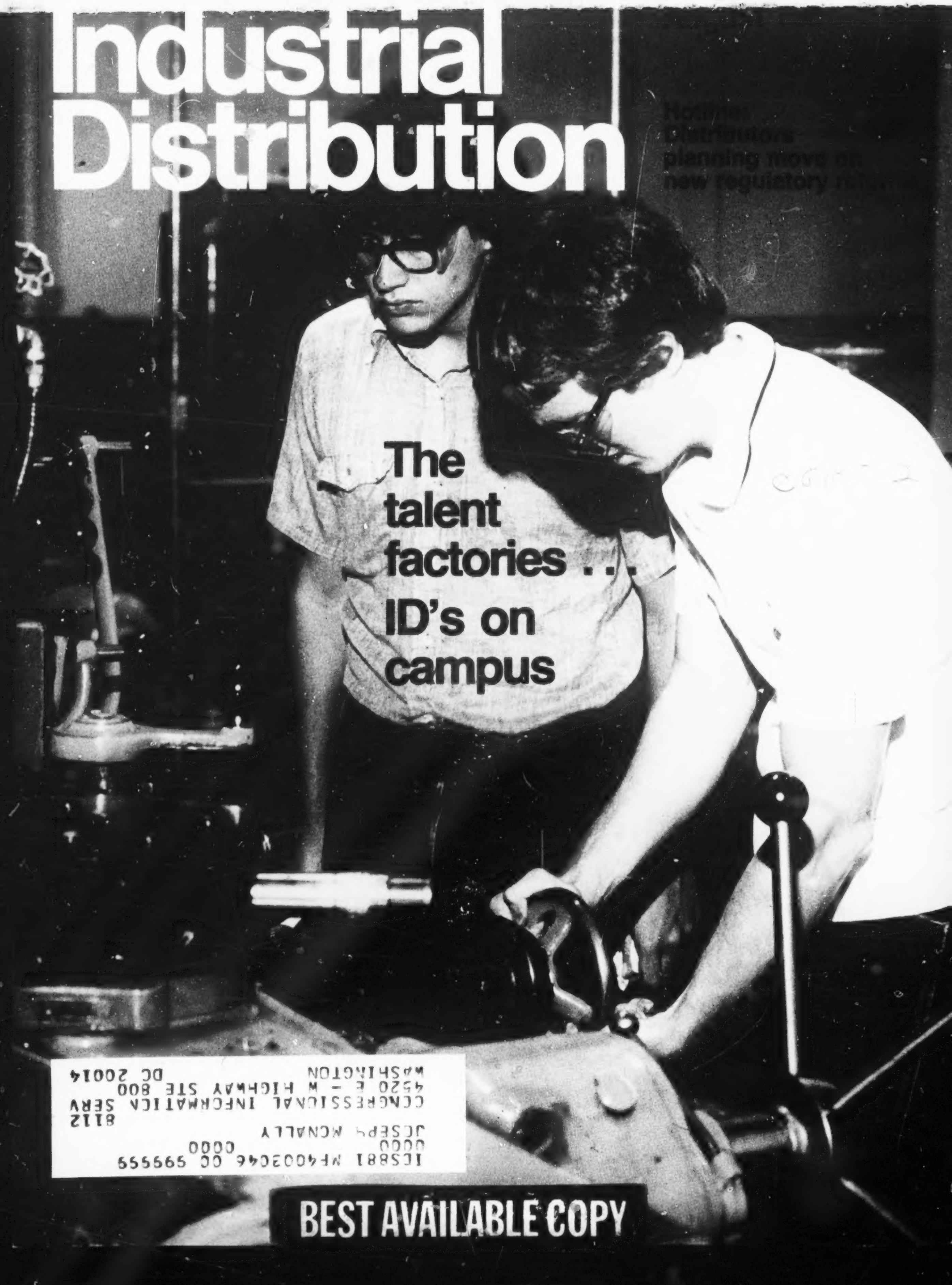


While April sales dip minutely, they remain well above 1980 totals . . .

SALES BY REGIONS (% change)	April '81 vs. March '81			April '81 vs. April '80			4 mos. '81 vs. 4 mos. '80		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	− 5	+ 0	− 3	− 1	+15	+ 4	− 4	+ 3	− 2
Connecticut	−15	+ 0	−10	−15	+ 9	− 7	− 2	+ 1	− 1
Massachusetts	+ 0	− 1	+ 0	+ 6	+19	+ 9	− 5	+ 5	− 3
MIDDLE ATLANTIC: N.Y., N.J., Pa.	−13	+ 8	− 5	+ 1	+ 3	+ 2	+ 3	+ 3	+ 3
New York Metropolitan Area	−20	+20	− 3	− 5	+14	+ 3	+ 9	− 2	+ 3
Upstate New York	−15	+ 5	− 8	+ 0	+ 3	+ 1	+ 1	− 1	+ 0
Pennsylvania	− 4	+18	+ 4	+ 7	+14	+ 9	− 1	+ 6	+ 0
SOUTH ATLANTIC: Del., D.C., Md.,	− 1	−13	− 6	+14	+14	+14	+ 5	+21	+11
Fla., Ga., N.C., S.C., Va., W.Va.	+ 0	−10	− 4	+12	+23	+14	+ 2	+33	+12
Georgia-Florida	− 2	−16	− 8	+16	+ 5	+12	+ 8	+ 8	+ 8
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	− 3	− 5	− 4	+ 0	+13	+ 6	− 4	+ 2	− 1
Indiana	+ 6	+30	+18	+ 7	+33	+20	+ 5	+25	+15
Wisconsin	+ 5	− 2	+12	− 3	+ 3	− 1	−11	− 8	−10
Chicago	−13	−22	−18	− 4	+20	+ 9	− 4	+ 5	+ 1
Michigan	− 6	− 1	− 4	+ 0	+ 1	+ 0	− 6	+ 3	− 2
Ohio	− 4	+ 4	− 1	+ 2	+21	+ 8	− 1	− 4	− 2
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	+11	+22	+14	+ 6	+12	+ 8	− 3	+ 4	− 1
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	+30	−16	+ 7	+24	− 9	+ 2	− 5	+ 2	− 2
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	− 8	+22	+ 7	+11	+23	+17	+ 7	+13	+10
Texas	+ 2	+ 4	+ 3	+14	+27	+23	+ 9	+16	+14
MOUNTAIN: N.M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	+ 5	−10	− 3	+12	+ 2	+ 7	− 9	− 3	− 6
PACIFIC: Calif., Ore., Wash.	− 7	+ 0	− 4	− 5	+ 5	− 1	− 1	+11	+ 4
L.A.-San Diego	− 4	− 7	− 5	+ 3	− 4	+ 1	+ 3	+11	+ 6
Oregon-Washington	− 9	+ 5	− 3	−13	+11	− 3	− 4	+10	+ 2
U.S. TOTALS	− 4	+ 0	− 2	+ 3	+10	+ 6	− 1	+ 6	+ 2

Industrial Distribution

Hotline: Distributors planning move on new regulatory reform



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BPA
ABP

August, 1981
Vol. 71, No. 8/71st year
A Morgan-Grampian publication

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Indicators . . .

Sales of industrial supplies and equipment dropped in all regi[illegible] the country in May. This reversed an upward trend that had prevailed the previous two months, according to the *NIDA-SIDA Industrial Distribution Index*. Compared to May of last year, however, the south and west showed gains. The national figure of 140.2 put the seasonally adjusted, two-month moving average 5.6 points (3.8%) below that of April. The figure is 1.5 points (1.0%) above the year-before level . . . The *NIDA-SIDA Inflation Index* for May was 143.6, up 1 point (0.7%) from April and 13 points (10%) from the year-before level. Regional sales, comparing May to month-before and year-before levels, were: east, 143.8, down 6.6% and 4.1%; midwest, 125, down 4.3% and 0.3%; west, 173.9, down 1.6% but up 4.9%; south, 148.3, down 3.2% but up 5.6% . . . The *ASMMA New Order Index* stood at 115.7, down 2.3 points (1.9%) from April and up 7.5 points (6.9%) from May 1980 . . . The *FRB Durable Manufacturers Index* stood at 143.5, up 0.8 points . . . The *SIDA Monthly Sales Trend Report* showed a 3.0% decline in May-to-April sales and a 6.5% increase in May 1981 from May 1980 sales. Sales in the first five months of 1981 compared to the same period in 1980 showed a 7.1% increase . . . The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 17.8 points (7.8%) below April's and 13.2 points (6.7%) above that of May 1980 . . . The National Welding Supply Assn.'s *Welding Supply Index* dropped to 149.8 from 165.7 in April . . . The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 118.3 in May, down 5.2 points (4.2%) from April but up 3.3 points (2.9%) from the year-ago level . . . Orders for fluid power products (hydraulic and pneumatic combined) were down 8% from April but up 36% from a year ago. Orders for hydraulic products were down 7% from April and up 50% from a year ago, according to reports from the National Fluid Power Assn. The Dept. of Commerce's 12 leading indicators of future economic activity fell in May to 135.2% of the 1967 average from 137.7% in April. The decline of the Government's index was the largest since May of 1980 when it showed a drop of 2.5%. ☐

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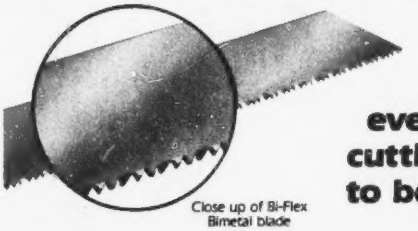

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Circle **65**

REGIONAL REPORT

May sales slacken

Distributors fought unsuccessfully to hold onto gains established in March and April. Sales for May skidded by comparison, but still checked in at 3% above previous year totals for all distributors.

Specialists blazed the trail with a hefty 6% upturn, while general liners settled for a more modest gain of 2%.

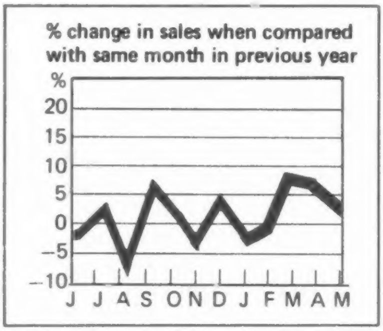
However, for monthly totals, both general liners and specialists witnessed losses. When compared with April figures, sales dipped 1% across the board. Among the biggest surprises was an 8% drop for West South Central specialists. Year-to-date sales remain 20% above 1980 levels.

Collectively, yearly totals were less than impressive for distributors, with only a 2% gain reported. Again, specialists led the way with a 6% sales leap that offset general liners' 1% sales loss for 1981.

But even with lackluster sales performance, distributors appear to be faring better than the economy as a whole. According to the Dept. of Commerce, the composite index of leading economic indicators fell 1.8% in May to 135.2% of the 1967 average—the largest monthly loss since May, 1980. The drop indicated underlying weakness in the economy, but DOC sources do not predict lengthy recession. □

RECEIVABLES*	May 1981		May 1980	
	Gen.	Spec.	Gen.	Spec.
New England	37.0	40.8	36.6	40.4
Middle Atlantic	43.6	39.5	40.7	37.6
South Atlantic	37.8	38.6	38.6	35.6
East North Central	40.8	41.9	39.6	43.3
East South Central	38.7	35.9	41.5	39.6
West North Central	33.0	43.0	38.5	38.1
West South Central	38.0	37.9	38.2	38.1
Mountain	39.7	36.2	39.0	39.2
Pacific	37.3	40.6	39.1	41.1
National	38.4	36.0	39.0	39.4

*Average days outstanding



Heavy specialist gains couldn't keep May sales even with earlier peaks . . .

SALES BY REGIONS (% change)	May '81 vs. April '81			May '81 vs. May '80			5 mos. '81 vs. 5 mos. '80		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	− 9	+ 4	− 6	− 1	+ 5	+ 1	+ 0	+ 9	+ 2
Connecticut	−12	+12	− 6	− 1	+15	+ 3	+ 4	+17	+ 7
Massachusetts	− 7	− 5	− 7	+ 0	− 6	− 2	− 4	+ 0	− 3
MIDDLE ATLANTIC: NY, NJ, PA	+ 1	− 6	− 3	+ 1	− 1	+ 0	+ 3	+ 5	+ 4
New York Metropolitan Area	+ 8	− 4	+ 1	+ 5	− 7	− 2	+11	+ 1	+ 5
Upstate New York	+ 8	− 9	− 1	+ 0	− 6	− 3	+ 1	+ 3	+ 2
Pennsylvania	−10	− 5	− 8	− 2	+ 9	− 2	− 1	+12	+ 6
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC,	+ 1	+ 0	+ 1	−10	+18	+ 4	−11	+11	+ 0
SC, VA, WV	+ 3	+ 1	+ 2	−10	+20	+ 3	−12	+12	+ 0
Georgia-Florida	− 4	− 3	− 4	−10	+15	+ 3	− 6	+ 9	+ 2
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	− 8	− 1	− 4	− 1	+ 6	+ 3	− 1	+ 3	+ 1
Indiana	+ 6	− 5	+ 1	+15	+18	+17	+ 5	+ 3	+ 4
Wisconsin	−16	+10	− 7	− 5	+ 0	− 3	− 3	− 5	− 4
Chicago	− 8	− 6	− 7	+ 0	−10	− 7	− 1	+ 2	+ 1
Michigan	− 8	− 5	− 6	+ 2	+10	+ 7	+ 1	+ 9	+ 6
Ohio	− 9	− 2	− 6	−13	+18	+ 3	− 2	+ 0	− 1
EAST SOUTH CENTRAL: AL, MS, KY, TN	− 4	+ 2	− 1	− 2	+ 3	+ 1	− 2	+ 3	+ 1
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	− 3	+13	+ 5	+21	+ 4	+13	+ 4	− 1	+ 2
WEST SOUTH CENTRAL: AK, LA, OK, TX	+12	− 8	+ 0	+ 6	+18	+13	−10	+20	+ 8
Texas	− 4	− 7	− 6	+ 5	+17	+11	+ 4	+14	+ 9
MOUNTAIN: NM, AZ, CO, UT, NU, WY, MT, ID	− 3	− 2	− 2	− 1	− 2	− 2	+ 5	+ 5	+ 5
PACIFIC: CA, OR, WA	+ 6	− 2	+ 3	+ 8	+ 8	+ 8	+ 0	+ 7	+ 3
LA.-San Diego	+ 2	− 2	− 1	+ 5	+12	+ 7	+ 4	+ 9	+ 6
Oregon-Washington	+10	− 2	+ 5	+11	+ 5	+ 8	− 4	+ 6	+ 0
U.S. TOTALS	− 1	− 1	− 1	+ 2	+ 6	+ 3	− 1	+ 6	+ 2

Industrial Distribution

September 1981

Hotline:
Operating investment climbs despite grim outlook

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Regal-Beloit expands industrial base by acquiring Grove Gear

SOUTH BELOIT, ILL.—In a move to give its power transmission line a broader base than it had previously, Regal-Beloit Corp. purchased Grove Gear Corp., Union Grove, Wis.

The price was $3 million, according to Robert C. Burress, vice president of management systems and treasurer for Regal-Beloit. In the transaction, 328.75 shares of Grove Gear will be converted into Regal-Beloit stock. A value for the Grove Gear stock has not yet been determined.

Regal-Beloit, a diversified manufacturer of special perishable cutting tools and power transmission equipment, recorded sales in 1980 of $40.2 million. Grove Gear, a privately held firm, projects sales in 1982 will exceed $8 million. Regal-Beloit markets all its perishable cutting tools, which constitute approximately 55% of its annual sales volume, through distributors. Grove Gear sells some 45% of its volume through distributors.

No changes have been planned in either the management or the distribution policies of the two firms, according to Burress. He said the acquisition will enable Regal-Beloit to expand its power transmission line into the industrial field. Previously, it directed most of its sales toward agricultural users.

Regal-Beloit has 760 employess at nine manufacturing facilities throughout the U.S. □

New York Twist Drill acquires John Bath

MELVILLE, N.Y.—New York Twist Drill Corp. plans to expand the production capacity of its newly acquired property, John Bath & Co., Inc. Worcester, Mass., a manufacturer of high-speed taps.

Sales of John Bath will be expanded by adding work shifts and equipment, according to C.J. Sirignano, executive vice president of sales and marketing at New York Twist Drill. John Bath has an annual sales volume of $3 million, virtually all of it sold through distributors. Despite New York Twist Drill's reliance on direct sales, it plans no changes in the marketing program of John Bath.

Founded in 1913, Bath & Co. has been a closely held, family-run business. John Bath will continue as president of the firm.

Because of problems in gearing up its capacity to meet increasing demand, John Bath "was in the enviable position of frequently being sold out," said Sirignano. "It's tough when you're a small family business because it is difficult to reinvest the profits."

Indicators. . .

Purchases of industrial supplies and equipment rose in the east, west and midwest in June and declined slightly in the south, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure of 140.9 put the seasonally adjusted, two month moving average 0.7 points (0.5%) above that of May. The figure is 8.7 points (6.6%) above the year-before level . . . The *NIDA-SIDA Inflation Index* for June was 144.2, up 0.6 points (0.4%) from May and up 12 points (8.3%) from the year-before level. Regional sales, comparing June to month-before and year-before levels were: east, 147.2, up 2.4% and 0.3%; midwest, 125.3, up 0.2% and 6.4%; west, 176.4, up 1.4% and 10.6%; south, 147, down 0.9% and up 8.6% . . . The *ASMMA New Order Index* stood at 118.2, a gain of 2.5 points (2.2%) from May and up 15.6 points (15.2%) from June 1980 . . . The *FRB Durable Manufacturers Index* stood at 142.7, a decline of 0.9 points . . . The *SIDA Monthly Sales Trend Report* showed a 12.2% increase in June-to-May sales and a 16.3% jump in June 1981 from June 1980 sales. Sales in the first six months of 1981 compared to the same period in 1980 showed a 4.9% increase . . . The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 30.3 points (14.4%) above May's and 37.6 points (18.5%) above that of June 1980 . . . The *National Welding Supply Assn.'s Index* surged to 163.3 in June, an increase of 9% over May's 149.8 and just short of the record 165.7 posted in April . . . The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 114.5 in June, down 3.8 points (3.2%) from May and down 4.2 points (3.5%) from the year-ago level . . . The *Quick Pulse Sales Trend Survey* by the National Industrial Belting Assn. indicates sales increased 5.6% over the first quarter and 2.6% over the first six months of 1980 . . . Machine tool orders for June totaled $307.2 million, an increase of 34.8% over May but a decline of 32.8% when compared to June 1980, according to the National Machine Tool Builders Assn. . . . Production levels and incoming new orders and employment dropped sharply in July reports National Assn. of Purchasing Management- . . . Dept. of Commerce's 12 leading indicators off 2.5 from April. □

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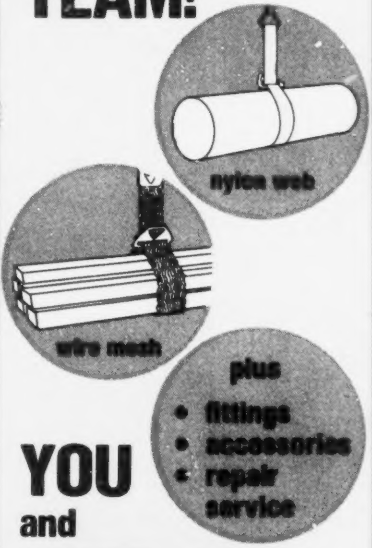

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June sales skyrocket

Distributors rode the crest of a sales wave in June as totals spurted up 15% when compared with the previous years.

Only a few witnessed fall-offs. Georgia and Florida general liners saw a drop of 10% from May to June of this year. Even so, annual sales activity remains 9% ahead of last year. The only region to post a year-to-date decline was the West North Central—by 1% for all distributors.

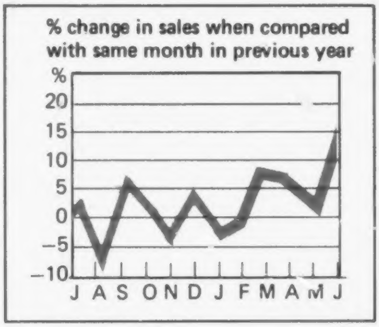
The most striking sales performance came from West South Central specialists, who's sales are climbing at an annual rate of 24%. General liners virtually kept apace with a 19% increase. Both Texas general liners and specialists checked in with 23% sales jumps.

But these hefty totals could not pull sales along faster than the rate of inflation for all distributors. Checking in at a rate just under 9%, the Consumer Price Index stands well above the industry's 5% 1981 upturn.

Distribution's June sales leap is, however, puzzling when put into the context of the Federal Reserve Board's index of industrial production, which shrank 0.1% for the same month. The sales upswing could represent a lag in replacing MRO equipment required by the first quarter's GNP climb at an annual rate of 8.6%.

RECEIVABLES*	June '81 Gen.	June '81 Spec.	June '80 Gen.	June '80 Spec.
New England	39.8	41.9	43.5	36.4
Middle Atlantic	40.4	43.7	40.7	41.5
South Atlantic	36.1	38.3	33.8	35.1
East North Central	35.9	40.4	37.3	41.2
East South Central	38.8	41.2	40.2	39.9
West North Central	36.2	40.4	35.9	39.1
West South Central	39.7	42.2	44.1	39.8
Mountain	44.4	40.0	41.7	42.0
Pacific	38.7	39.2	35.2	40.3
National	38.9	40.8	39.2	39.5

*Average days outstanding


% change in sales when compared with same month in previous year

June totals set highs as sales jumped 15% after two months of decline . . .

SALES BY REGIONS (% change)	June '81 vs. May '81 Gen.	June '81 vs. May '81 Spec.	June '81 vs. May '81 Both	June '81 vs. June '80 Gen.	June '81 vs. June '80 Spec.	June '81 vs. June '80 Both	6 mos. '81 vs. 6 mos. '80 Gen.	6 mos. '81 vs. 6 mos. '80 Spec.	6 mos. '81 vs. 6 mos. '80 Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	+ 8	+17	+10	+20	+16	+19	+ 2	+10	+ 4
Connecticut	+15	+13	+14	+23	+ 1	+ 8	+ 3	+ 3	+ 3
Massachusetts	+ 4	+20	+ 6	+18	+30	+20	+ 1	+17	+ 4
MIDDLE ATLANTIC: NY, NJ, PA	+ 9	+16	+13	+11	+13	+12	+ 4	+ 4	+ 4
New York Metropolitan Area	− 1	+16	+ 8	− 1	+10	+ 5	+ 5	+ 0	+ 3
Upstate New York	+10	+13	+12	+22	+11	+17	+ 5	+ 3	+ 4
Pennsylvania	+20	+22	+21	+13	+20	+17	+ 1	+12	+ 7
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC,	+ 4	+ 5	+ 5	+ 8	+16	+12	− 1	+ 8	+ 4
SC, VA, WV	+14	+ 5	+10	+ 6	+16	+11	− 8	+ 8	+ 0
Georgia-Florida	−10	+ 6	− 2	+11	+16	+14	+ 9	+ 9	+ 9
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	+11	+ 6	+ 8	+15	+16	+16	+ 0	+ 4	+ 2
Indiana	− 5	+ 5	+ 0	+12	+10	+11	+10	+15	+13
Wisconsin	+ 8	+11	+ 9	+ 8	+22	+14	− 7	− 1	− 5
Chicago	+10	+11	+10	+12	+ 2	+ 5	+ 5	+ 3	+ 4
Michigan	+19	+ 3	+ 8	+37	+14	+21	+ 4	+ 8	+ 7
Ohio	+16	+ 0	+ 8	+16	+24	+20	+ 0	+ 3	+ 2
EAST SOUTH CENTRAL: AL, MS, KY, TN	+26	+12	+23	+21	+ 2	+16	+ 1	+19	+ 5
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	− 2	− 1	− 2	+13	+ 6	+10	+ 1	− 4	− 1
WEST SOUTH CENTRAL: AK, LA, OK, TX	+13	+20	+17	+33	+25	+29	+19	+24	+22
Texas	+14	+28	+21	+ 6	+37	+22	+23	+23	+23
MOUNTAIN: NM, AZ, CO, UT, NU, WY, MT, ID	+22	+10	+19	+16	+23	+18	+ 3	+ 5	+ 4
PACIFIC: CA, OR, WA	+ 3	+10	+ 6	+ 8	+28	+17	+ 1	+14	+ 7
LA.-San Diego	− 1	−16	− 7	+ 4	+19	+10	+ 8	+11	+ 9
Oregon-Washington	+ 6	+30	+18	+12	+35	+24	− 6	+16	+ 5
U.S. TOTALS	+10	+11	+10	+13	+17	+15	+ 3	+ 8	+ 5

The changing styles of compensation

Straight compensation and compensation packages mainly for sales personnel are reflecting steady erosion of profits and surging operating costs. Combined with so-so or sagging sales, many distributors are rethinking and revising traditional methods of compensating salesmen.

Without exaggeration it can be said that for every 20 companies, 25 different employee compensation plans exist. Less than an exact science, compensation for salesmen is known for its ambiguities and confusion. Plans can come and go faster than a speeding bullet, and two salesmen working side by side may find themselves compensated differently.

Insights into compensation's perennial problems can be gleaned by the comments of a western general line distributor. "Right now" he said, "I'm working under four or five different plans, and there's little consistency. For some salesmen, we have straight commission; for others, salary plus commission or spiffs on certain items. It's really difficult to achieve one standard way when you start out small and grow through acquisition. Once people get used to a certain plan it's tough to change. But I have to, even though I don't want to shake everybody up."

Often termed the art of paying salesmen enough to keep them productive but not enough to damage profitability, compensation bears directly on whether a distributorship lives or dies. Not only is compensation tied to overall sales performance, but it takes an ever-growing chunk out of a company's all-essential gross profit margin.

The figures tell the story. While the costs of total compensation per distributorship have not surged as dramatically as inflation, they are gobbling up gross profit dollars. For all general liners, compensation as a percentage of gross profit has climbed from 33.3% in 1979 to 35.2% in 1980. Specialists suffered more with a jump for the same year, from 35.8% to 38.5%. Both groups in the $2.0 to $3.9-million sales range have the highest compensation totals: 40.1% for general liners and 42.9% for specialists.

Commissions skyrocket

According to data from Dartnell Corp., Chicago-based research firm, the average earnings of salesmen on a salary plan in 1977 were $20,950, which rose 6% to $22,265 in 1979, the last year for which figures are available. On a combination salary-plus-discretionary-bonus plan, figures for the same year mark a 9% increase, from $26,100 up to $28,456. However, for salesmen paid solely on commission, totals zoomed from $24,450 to $32,135, up 31.4%.

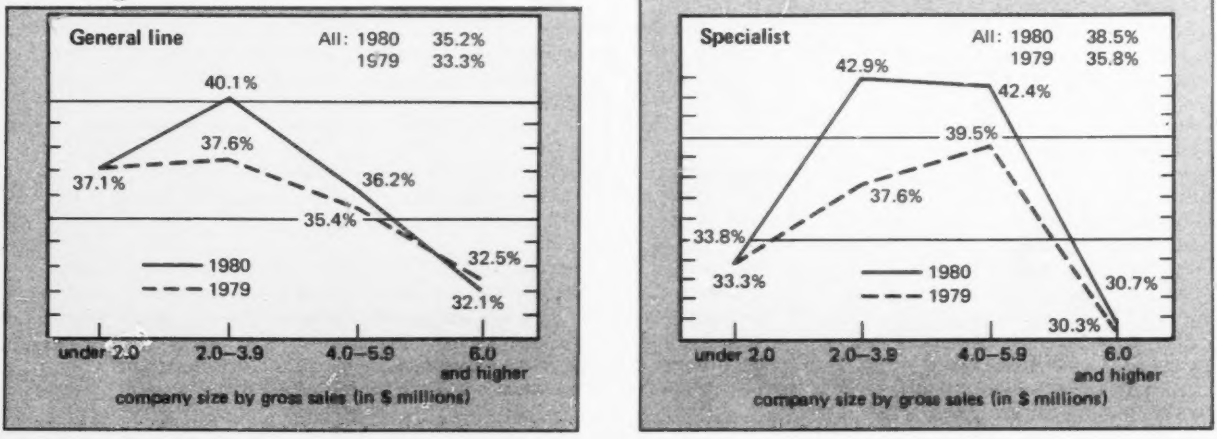
Heavily performance-oriented, distributors polled by ***ID*** tend to pay on commission, unlike all other industries, which in the Dartnell study check in at only a 20.3% rate of commission compensation. In recent years and with the advent of computerization, the commission trend is toward payment as a percentage of gross profit dollars. Yet this practice in face of skyrocketing costs and economic downturn is coming under question, even for those who consider it successful.

Carey Machinery & Supply Co., Baltimore, is just such a company. The general liner grossing $20 million annually did away with base salary some years back and instituted straight commission on gross profit. But president G. Cheston Carey, who also sits on the National and Southern Industrial Distributors Assns. personnel and financial management committee, isn't convinced that this is the best way to go.

"First you have to decide what you want to achieve and what your goals are. If you simply want gross profit volume, then paying a flat commission on gross profit sales is correct. But paying on gross profit means more selling rather than selling more profitably," Carey commented.

Carey pays commissions monthly with a varying percentage held back in case of a sales dropoff. Typically, each salesman is allowed a draw against his commissions.

Total compensation as a percentage of gross profit



Yet a snag in the straight commission game is that the cycle can go negative, meaning that at year-end, draws have exceeded commissions.

"It's a constant problem," Carey continued. "In some cases the debt is carried over into another year. When it happens, the first thing we do is realign the territory to make sure that it's not the problem. If that doesn't help and we find it's the saleman, well, it's just something we have to decide on an individual basis."

To keep compensation and performance totals up, Carey does not use, per se, a quota system with automatic increases. Instead, he prefers to call it a goal system whereby certain target figures are assigned each year and used as the basis for commission compensation.

"To just give your salesmen across-the-board required upturns in performance is blind," said Carey. "In doing that you overstate some goals and understate others from a marketing point of view. For instance, you may want to penetrate a new market which won't necessarily immediately increase gross profit. Certain goals are non-quantifiable."

His prediction for future compensation plans in distribution has its foundation in strengthening market performance. He said that the years to come may see a revival of traditional methods such as "some sort of salary with commission or bonus. This of course would allow you to reward more effectively goals other than gross profit. My guess is that distributors will start to favor some sort of salary plan."

Restructuring compensation

One reason that Carey and other distributors are questioning the prevailing practice of commission on gross profit is that management can lose an element of control over the sales force. As one Arkansas distributor put it: "They tend to sell what they want to sell, what they are used to selling, and not what serves the best interests of the company."

Even so, adherents to the gross profit method defend the practice. "Yes, you do lose some control over what your salesmen sell, but as to a salary structure, I don't like it. I come from a sales background. You can regain direction by varying the percentage of gross profit you pay on certain lines," said Robert A. King, president of Wm. H. Taylor & Co., Inc., an Allentown, Pa., general liner.

King began compensating on gross profit in 1969. Prior to that he used a method which paid according to costs per line of billing. Included in the computation were elements covering the expense of warehousing and carrying over inventory. These varied by product line and each was calculated accordingly. King admits that the system makes a lot of sense for a lot of businesses in tracking performance and paying commissions. However, he said that it was virtually impossible to administer.

"The salesmen weren't pleased about working under this system because they had no control over key elements in the computation. How can a salesman control inventory costs? He can't, yet these factors directly influence his compensation. So we had to move over to a gross profit system," King explained.

The variation on the gross profit theme that's proved most successful is a sliding scale on gross profit, which, according to the line can run from 10% to 20%. The average for all lines is 15.97%.

"We tailor the commission rate to meet our objectives and not necessarily the salesman's. Percentages are set as to the degree of effort involved to sell the line or account," said King.

The highest percentages are key line accounts, but these are not necessarily the ones that have the highest mark-up. They may be set up by market potential for the target area. Therefore, it's possible for the company to award greater commissions to lines that have smaller gross profit margins.

To determine key line accounts, King said, he simply uses three criteria: the items must have good market potential, good

Comparing compensation costs . . .

The wealth of compensation studies available offers more than just tracking [illegible] single company against national averages. Some, arranged by geographic areas, will be able to advise whether current distributor compensation plans are competitive with other, allied industries. Here's a partial list of some of the best resources:

Guide to Management Compensation, Administrative Management Society, 2630 Maryland Rd., Willow Grove, Pa. 19090. This 1981 study is based on a survey of more than 65,000 employees in 3500 companies across the U.S. and Canada. Middle management is the focus. Information is presented by geographic region and specific urban locations. Price: $50 to members; $75 to non-members.

Area Wage Surveys, Government Printing Office, Washington, D.C. 20402. A full range of compensation costs arranged by area and including office, technical and maintenance jobs. Surveys are broken down by company size and industry. Prices vary from 70 ¢ to $3.50. A complete list is available free from GPO.

National Survey of Professional, Administrative, Technical and Clerical Pay, Government Printing Office, Washington, D.C. 20402. A nationwide compensation survey of occupations from computer operators and lawyers to clerks. Price: $4.

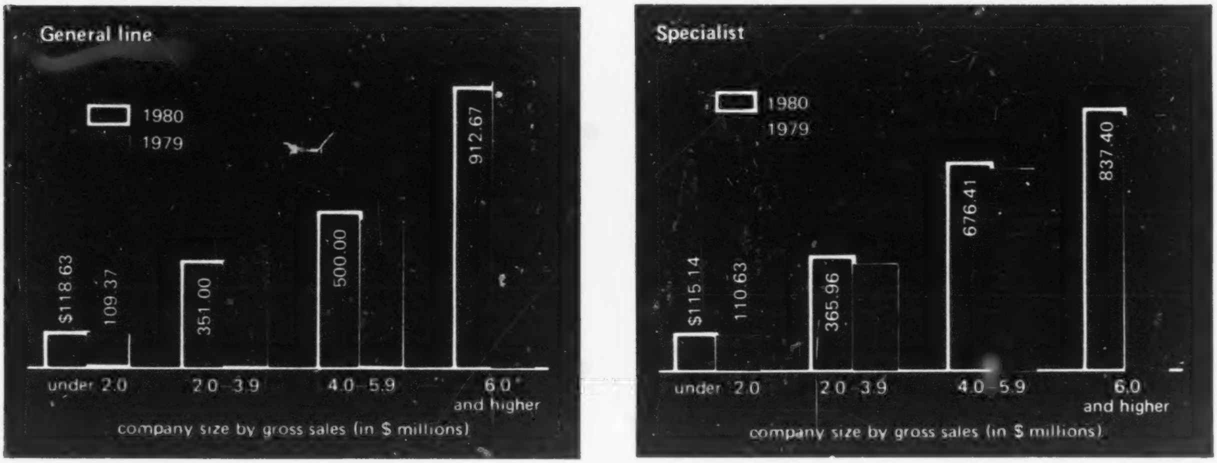
13th Biennial Survey of Executive Compensation, 20th Biennial Survey of Compensation of Salesmen, Dartnell, 4660 Ravenswood Ave., Chicago, Ill. 60640. The study of executive plans should prove valuable for top distributorship management. In addition to salary levels, perks such as medical plans, bonuses and incentives are discussed. A special section on women in management is included. Sales compensation methods and costs are thoroughly dissected in the second study. Data on fringe benefits, expense accounts, benefits and sales calls round out the picture. The survey represents roughly 400 companies and more than 15,000 salesmen. The study includes respondents from 40 separate industry classifications. Price of each study is $89.50 plus postage. Both are available on a 15-day free trial basis.

Executive Compensation Alert, Research Institute of America, 589 Fifth Ave., New York, N.Y. 10020. This monthly newsletter gives the latest lowdown on new twists in executive compensation. Tax laws and other changes affecting pay packages are detailed as they arise. Per year price is $51 and that also pays for an annual report on 10,000 companies and their management compensation plans.

Compensation Review, American Management Assn., 135 W. 50th St., New York, N.Y. 10020. A quarterly publication designed to keep management abreast of current trends and research reports.

INC. Annual Compensation Study, INC. Magazine, 38 Commercial Wharf, Boston, Mass. 02110. More than 900 executives of small businesses participated in the magazine's first study. Executive compensation is broken down by company size according to dollar volume and number of employees, as well as by type of industry. Changes in compensation necessitated by the 1980 business slump are probed. The 165-page manual is available for $85 ($75 if paid in advance).

Total average compensation in thousands of dollars



manufacturer support, and not be "lowball" products for which the paying of a higher-than-normal commission would make them virtually pointless to sell. Examples he cited included grinding wheels and coated abrasives.

King estimates that it costs approximately 26% of total gross profits to administer the plan for his outside salesmen. The figure includes both commissions and expenses. The company pays all costs it considers legitimate, such as entertainment and travel. "It's not perfect," King noted, "but it makes its point."

Cost of change

Although King had no problem in switching his compensation method to one more suited to company needs, the same can't be said for other distributors. One midwest cutting tool specialist stated that he currently is paying a percentage of gross but is in the middle of a change:

"I'm working on only a 15% margin and giving full commission. It's just got to stop. I've got to raise that margin if I'm going to stay in business."

How will he effect change? He comments, "You'd think that by giving a salesman a gross profit percentage he'd naturally sell more profitable lines, but our profits have not gone up. They still sell what they feel comfortable with. I told our salesmen a couple of years ago that we were going to change. And I guess in order to make the change work I'll have to guarantee for the first year that they won't lose any money on the new plan."

Other distributors who have made drastic revisions in their compensation plans pursued similar guarantees. One New Jersey general liner said a salesman came into him claiming he'd been left in the lurch and lost $1000. Recalled the president of the company, "I pulled out a checkbook then and there and wrote him a check for a thousand bucks. When you change, you must make sure that your people don't lose money."

But some have not been as fortunate in instigating new policies. Herbert Van Horn Jr., president of Oliver H. Van Horn, Inc., New Orleans, has made an all out effort several times to alter his compensation method. The cutting and machine tool specialist with 22 outside men and $17 million in annual sales uses salary plus additional compensation when sales climb 4% above quotas. Car expenses are paid and salaries are a standard $1500 monthly. Van Horn describes the system as "arbitrary and antiquated," yet any suggestion of alteration has met with stiff resistance from the company's sales staff.

"Every time we try to do something new, the salesmen get all upset. Our present system is effective to a degree, but we really aren't satisfied. Some time ago we changed to a straight commission basis, but our men started squawking. Since many of them have been with us for a number of years, we returned to the old system," Van Horn said.

Unlike many eyeing change, Van Horn believes that the only fair method of compensation is straight commission. However, even if he wanted to start up a gross profit commission method today, he couldn't because the distributorship is not computerized and could not maintain sufficiently adequate records.

So the company is dependent on setting quotas, on which Van Horn had this to say:

Company-wide payscales . . .

How much does the top brass of distribution earn? A simple average is virtually impossible to achieve, since the disparity of annual wages between a CEO owner and CEO non-owner can be as much as $80,000. Even so, one trend cannot be disputed—that bonuses and incentives are necessary ingredients of compensation.

According to Dartnell, Chicago research firm, 100% of all top management receive bonuses. Sixty-eight percent of middle management and 38% of supervisors are similarly compensated. The figures for profit-sharing for the three management groups are, respectively, 93%, 85% and 79%. Performance cash awards are next on the list with 56% of top management receiving them, 52% of middle management and 40% of the supervisors.

Distributors adhere to these trends. For a Louisiana specialist, branch managers and assistant branch managers share in the gross profits earned.

For a northeastern general liner, a similar trend emerges. Sales managers for the company receive salary and bonus and incentives in accordance with a productivity index that establishes departmental goals. "Everybody in this company is paid some sort of incentive, and that includes me," said the company CEO.

Does "everybody" mean non-exempt personnel, who can make up as much as 70% of a distributor's payroll? Often, 36.3% of the time, the answer is yes. A midwest general liner said he pays bonuses twice a year, once in the spring and the remainder at Christmas. The average amount of the bonus, according to distributors polled by ***ID***, is 15% of total salary. This, however, takes into account a wide range of amounts and personnel from data processing chiefs to secretaries.

As to annual non-exempt compensation increases, the figures check in lower than those in other industries. Primarily non-unionized, distributors don't have the annual wage increases built into salary structures and labor contracts. Said a tidewater general liner, "I think you'll find that in our industry, raises tend to run substantially under the rate of inflation." With recent estimates for the *Consumer Price Index* expected to check in at less than 10% for 1981, compensation increases could be minimal.

"We seldom ever raise a quota. And the ones we set are really rather arbitrary, have nothing to do with market potential. Decisions are made on an individual basis and without any real plan. Sometimes I think we're really kidding ourselves."

No expenses

With the cost of a typical sales call hovering around $150 by distributor consensus, expenses are another area coming under fire. In a plan such as Wm. H. Taylor's, a full 10% of gross profit can be written off to the cost of traveling. But two distributors think they've got the problem licked. Each has simply refused to pay expenses at all.

John Annes, executive vice president of Chicago's Krivo Industrial Supply, describes what, at least from a bookkeeping standpoint, has to be the simplest compensation method around. It's 7% of gross sales. Period. No expenses, no bonuses. The company assumes only the costs of hopitalization insurance and a profit-sharing program.

"The amount of money we pay out may sound high, but it isn't," Annes said of the company grossing $10 million a year with 10 outside men. "We figured it out and by the time we paid for car expenses and tracked a gross profit plan, our costs would be the same."

Annes believes that Krivo offers a compensation plan that is psychologically motivating. Since the company assumes no expenses, the checks each salesman receives are higher than most distributors write, even though Annes estimates that 28% to 30% of each check goes to auto and entertainment costs. The resulting feeling of independence sweetens the salesman's motivational pie. Additionally, the salesmen can deduct the costs of mileage and car depreciation from his taxes.

As to establishing quotas, Annes said he really sets none. "Every 30 days salesmen get their checks, and they tell the whole story. We know and they know just how well they're doing. The entire system must work rather well because for a 28-year-old company our salesmen have on the average 15 years with us," he commented.

J.W. Crowell, president of Industrial Supply Corp., Richmond, Va., pays similarly in that he has cut expenses from the company budget. Crowell, though, pays on a percentage of gross profit. The company's urban/rural market environment suits a two-tiered commission plan. In the city, 17% of all gross profits are paid out to salesmen. The average figure for the country is 22%.

One attractive feature of the system is its inherent flexibility. For instance, when the company in the past wanted to penetrate new markets, it set up key line accounts that offered a 25% city commission and a 30% rural commission. All other lines were dropped to 15% and 20% respectively. As soon as the territories were fully tapped, the commission reverted to the standard.

'Every 30 days salesmen get their checks...We know and they know just how well they're doing.'

—John Annes

Crowell confessed that the plan hasn't always been a success. At one time, when the ratio of stock to backorder sales was becoming heavily slanted toward the latter, a 2% bounty on stock sales was offered. The salesmen didn't go for it, partly because, he said, they preferred to put together high-ticket systems. As a result, stock sales have slipped to 32%, with backorders making up the remainder.

But overall, the company is pleased with its compensation method. "We've sent people to schools, had our managers attend seminars put on by SIDA and the National Assn. of Wholesaler-Distributors. We've looked into other methods and experimented, but they just don't work for us," he said, and remarked that his salesmen average 15 to 20 years of experience with annual compensation $26,000 to $50,000 per man.

Keeping salesmen closer to the home base and making the most productive use of time is a side benefit of the expenseless system. "They used to go out on a Monday and not come back until Thursday. But with the tremendous costs of traveling, they don't stay overnight anymore," Crowell noted.

Inside compensation

As varied and vital as outside compensation is, inside sales commission compensation virtually steals the show as a topic on the lips of distribution. While some accept the idea, others vehemently oppose it.

When the Wm. H. Taylor & Co. began compensating its inside men via commission-plus in 1975, the system gradually developed an inside force that served not only to support but to reinforce the outside sales staff. King said that in a strictly backup role—taking phone orders and working up specifications—an inside man can expect to make anywhere between 1% and 4% of the gross on a sliding scale. However, when the inside man picks up an unassigned account, he takes home two-thirds of what the outside commission would be.

"Giving inside salesmen a high commission simply grew out of the fact that some accounts are too costly or too impractical for an outside man to reach. Also it works well for certain lines, such as air compressors, which are sold by detailed specifications," King explained.

The program has been successful enough that the company is working with sales specialists in order to set up a complete inside sales team.

The pool concept is another way distributors are tackling the problem. Industrial Supply Corp.'s Crowell set up a plan whereby the entire sales staff receives a quota. Once it is reached by team effort, the whole crew starts picking up additional compensation. Their teamwork sparks productivity.

'What I object to is taking an inside man and simply handing him additional money.'

—Jordan Hecktman

"Prior to our paying commissions, my inside men used to gripe that they had enough to do without effectively handling what can be an onslaught of orders. Since they've been getting paid for it, they're willing to work harder. It's solved a lot of problems for the company," Crowell said.

At Marsuco, a Tulsa, Okla., general liner, inside men receive direct commission. President C.R. Vincent commented that since the program's implementation, gross margins have increased by 1½%. Under the plan, 1% of gross profit on the first $10,000 earned is paid, 2% of the second, and 3% of the third.

According to industrial sales vice president Larry F. O'Byrne, "Motivation has increased sizably. Now our inside people try to sell the whole dozen rather than settle for six or seven. Before we started compensating inside men additionally, their share was going to be their share regardless. They had no incentive to sell hard."

A side benefit, said O'Byrne, is that smaller accounts have been more fully exploited, which tends to be overlooked by outside men. An additional motivation factor under the plan is that a top-notch inside man can actually earn more than just the average outside salesman, or in excess of $30,000 annually.

Resisting

But even the success of such programs in the industry has not motivated a vast number of distributors to upgrade inside sales compensation. Chicago's Bosler Supply president Jordan Hecktman explains, "I know what's happening out there, but whether I like it or not is another thing. I can't really see why you should pay an inside man additional compensation. If I pay an inside salesman commission, then why don't I pay our purchasing people who get better deals commission, or the recievables people who collect faster? Where does just doing a good job begin and end?"

Hecktman did say, however, that he is looking into prevailing compensation methods, and will test one against straight salary by year-end.

"A change in the job descriptions, in the responsibilities, that's what it's all about. If with the cost of a sales call at $150 we can save on gas and entertainment without sacrificing sales, then I think inside compensation is in order. What I object to is taking an inside man and simply handing him additional money," he concluded. ◻

Industrial Distribution

October 1981

Hotline:
Distributors laud tax cuts; see threat from big business

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Selling and the law

INSTRUCTIONS
WARRANT

. . . also in this issue:

Power transmission—
Product + profit

How to sell . . .
PT specialties

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Indicators . . .

Purchases of industrial supplies and equipment spurted in July as all areas of the country showed sizable gains, according to the *NIDA-SIDA Industrial Distribution Index*. The national figure reached an all-time high of 149.4 in July, to put the seasonally adjusted, two-month moving average 8.5 points (6%) above that of June. The figure is 17.2 points (13%) above the year-before level. Regional sales, comparing July to month-before and year-before levels, were: east, 156.6, up 6.4% and 9.7%; midwest, 135.7, up 8.3% and 17%; west, 180.5, up 2.3% and 1%; south, 152.6, up 3.8% and 10.6% . . . The *ASMMA New Order Index* climbed to 121.9, up 3.7 points (3.1%) from June and 19.3 points (18.8%) from a year ago . . . The *FRB Durable Manufacturers Index* remained at 143.2 for July, an increase of 11.6% over last year . . . The *SIDA Monthly Sales Trend Report* showed a 0.9% increase in July-to-June sales and an 18.9% rise in July 1981 to July 1980 sales. Sales in the first seven months of 1981 compared to the same period in 1980 showed a 12% increase . . . The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was 18.3 points (7.6%) below June and 21 points (10.4%) above that of July 1980 . . . The National Welding Supply Assn.'s *Welding Supply Index* dropped to 155 from 163.5 in June . . . The *Quick Pulse Index* of the National Assn. of Aluminum Distributors stood at 105.6 in July, down 8.9 points (7.8%) from June and 0.4 points (0.4%) from the year-ago level . . . Machine tool orders rose 35% in June to $307.2 million, the first increase in three months, according to the National Machine Tool Builders' Assn. However, the pace of orders for the first half of 1981 is down 38% compared to the same period last year . . . The *Quick Pulse Sales Trend Survey* of the National Industrial Belting Assn. showed a 6.6% increase in sales for the third quarter over the second quarter . . . Orders and shipments of fluid power products were up 12% in June compared to May, according to the National Fluid Power Assn. . . . The Material Handling Institute reported bookings for material handling equipment in May were up 14% over a year ago . . . The Dept. of Commerce's 12 leading indicators of future economic activity slid in June to 133.8% from 135.5% in May.☐

SME shows display new technology to spur productivity

DEARBORN, MICH—If distributors are going to streamline their operations to make them more cost-efficient and productive than they are now, they may want to keep abreast of the new technology that will be on display at a series of regional conferences and shows sponsored by the Society of Manufacturing Engineers.

The Industrial Productivity Conferences and Expositions will begin in Memphis, February 16-18, and will cover a range of new technology and techniques, including material handling equipment and retrieval systems; plant maintenance equipment; packaging, energy, ecology and security systems, and communications and computer systems.

For further information about the events, contact Ron McCreary, SME Expositions Dept., 1 SME Dr., P.O. Box 930, Dearborn, Mich. 48128. ☐

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July sales maintain pace

The pace set by last month's 15% rise slackened only slightly as July sales checked in at 14% above year-ago levels.

Regionally, the West South Central, typically, set the standard by which sales performance in other areas of the nation are judged—29% for all distributors. Year-to-date sales remain 23% above 1980 totals.

Other areas reporting sharp upturns when compared to year-ago levels include Indiana, 28%; Pennsylvania, 24%; Michigan, 23%; and Ohio, 22%.

However, year-to-date sales tell another story. Sales for both general liners and specialists have inched up only 6% from 1980. But considering that this total is unadjusted for inflation, 1981 so far posts a loss.

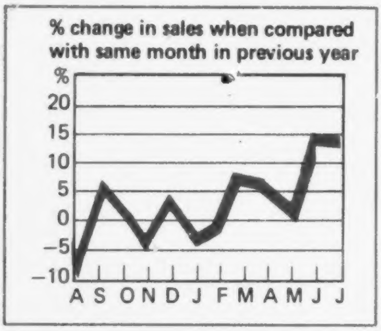
By that consideration, some areas are in steep decline. When subtracting even a conservative 9% for inflation, Mountain and West North Central distributors with losses of 10% and 2%, respectively, become significant recessionary drops.

The Dept. of Commerce's index of leading economic indicators reports a similar trend, which in July fell from 133.9% to 133.7% of the 1967 average. While this represents the third straight month of decline, economists say it presages business sluggishness and not a recession.□

RECEIVABLES*	July '81		July '80	
	Gen.	Spec.	Gen.	Spec.
New England	43.1	40.0	40.0	47.0
Middle Atlantic	43.5	47.4	40.0	47.2
South Atlantic	33.6	34.7	34.9	36.6
East North Central	40.7	40.4	39.8	36.5
East South Central	40.7	42.4	39.1	46.3
West North Central	38.1	46.7	40.7	43.0
West South Central	39.8	40.0	46.3	39.3
Mountain	39.5	46.7	42.5	47.6
Pacific	36.8	43.1	34.2	39.8
National	39.5	42.4	39.4	46.3

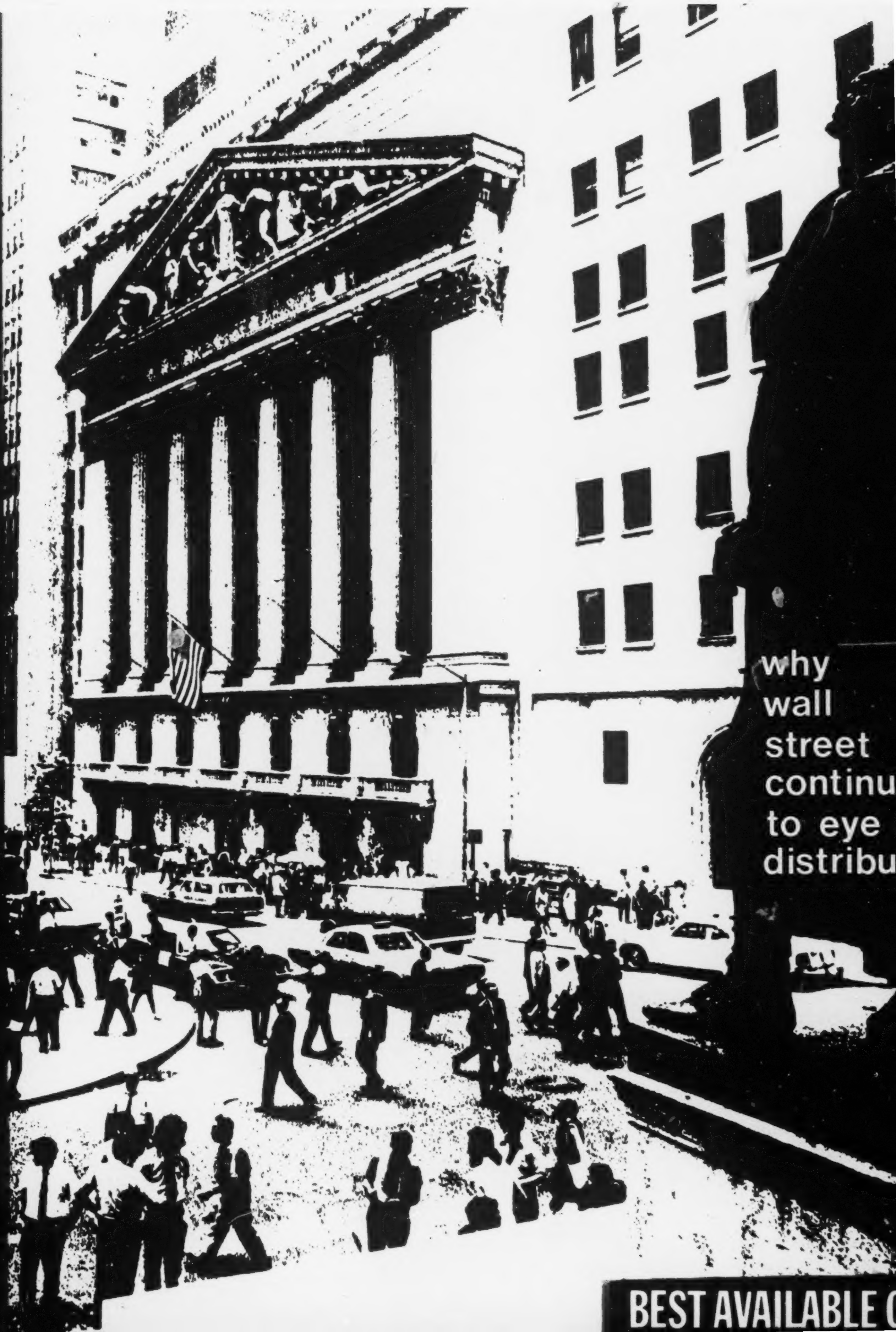
*Average days outstanding

% change in sales when compared with same month in previous year



While year-to-date sales exhibit small increases, monthly totals soar . . .

SALES BY REGIONS (% change)	July '81 vs. June '81			July '81 vs. July '80			7 mos. '81 vs. 7 mos. '80		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	−17	−17	−17	− 7	+31	− 3	+ 1	+18	+ 3
Connecticut	−27	−15	−23	−14	− 8	−12	+ 1	+ 5	+ 2
Massachusetts	− 8	−17	−10	+ 5	+31	+10	− 3	+18	+ 1
MIDDLE ATLANTIC: NY, NJ, PA	−10	− 2	− 6	+12	+13	+13	+ 5	+ 5	+ 5
New York Metropolitan Area	− 1	+ 3	+ 2	+12	+12	+12	+ 6	+ 0	+ 2
Upstate New York	− 1	− 1	− 1	+11	+13	+12	+ 4	+ 1	+ 3
Pennsylvania	−17	− 9	−13	+12	+38	+24	+ 4	+15	+ 9
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC,	+ 2	+ 2	+ 2	+17	+20	+18	+ 3	+12	+ 6
SC, VA, WV	+ 5	+34	+11	+12	+49	+20	− 5	+12	− 2
Georgia-Florida	+ 1	− 8	− 3	+26	+13	+21	+12	+11	+12
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	− 2	− 4	− 3	+15	+20	+17	− 1	+ 5	+ 2
Indiana	+ 7	+ 9	+ 8	+34	+22	+28	+13	+15	+14
Wisconsin	− 1	− 6	− 2	+ 9	+17	+11	− 5	+ 1	− 4
Chicago	− 8	+13	+ 8	−23	+40	+24	−16	+ 8	+ 2
Michigan	+ 0	− 2	+ 0	+24	+20	+23	− 2	+ 7	+ 0
Ohio	−11	+15	− 1	+10	+44	+22	+ 2	+ 9	+ 5
EAST SOUTH CENTRAL: AL, MS, KY, TN	+ 8	+10	+ 8	+12	+14	+14	+ 1	+ 5	+ 2
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	+ 4	−12	− 2	+33	−10	+17	− 6	+ 0	− 4
WEST SOUTH CENTRAL: AK, LA, OK, TX	−14	− 4	− 9	+23	+34	+29	+20	+25	+23
Texas	−23	−20	−21	+20	+14	+16	+28	+21	+17
MOUNTAIN: NM, AZ, CO, UT, NU, WY, MT, ID	−10	− 8	− 8	+ 8	+ 6	+ 6	− 6	−12	−10
PACIFIC: CA, OR, WA	− 7	− 5	− 6	+ 6	+13	+10	+ 4	+13	+ 9
LA.-San Diego	+12	+ 4	+ 7	+21	+18	+19	+24	+12	+17
Oregon-Washington	− 8	−10	− 9	+ 5	+ 9	+ 7	+ 2	+14	+ 8
U.S. TOTALS	− 6	− 4	− 5	+13	+15	+14	+ 3	+ 9	+ 6



why
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Industrial distribution is one industry that often defies the vagaries of a volatile economy, one reason it remains the target for chains, conglomerators and investors.

Why does Wall Street eye distribution? We tried to answer that question for the readers of this magazine four years ago ***(ID:* May 1977)**. At the time, we suggested that the investment community was just becoming aware of industrial distribution. We said that most investors were only vaguely familiar with the industry, because few of the distributors in the U.S. were publicly owned. We have found fewer than 100 companies that derive over 50% of their sales or profits from distribution out of the several thousand companies that are publicly owned.

Nevertheless, we believed that the bright growth prospects of the industry and the changes that were taking place within it provided some good reasons for investing in well-managed distributors. We think our optimisim has been justified, as evidenced by the performance of our own *Index of Industrial Distribution Stocks*. This index provides a measure of the stock market behavior of representative durable goods wholesalers. It includes 12 companies that derive all or almost all of their sales and earnings from durable goods wholesaling.

By **William F. Jelin**
Bacon, Whipple & Co.
Chicago, Ill.

The index, currently near its all-time high, has increased 82% in value over the last four years. During the same period, the *Standard & Poor's Index* of 500 industrial, financial, utility and transportation stocks rose by only 31%.

Although our index has performed well in recent years, we think the investment community's interest in industrial distribution stocks will continue to grow. While there are dozens of reasons investors use for choosing their investments—too many for us to cover in this brief article—we believe one investment concept has proved valuable over extended periods of time. Simply stated, it is to invest in undervalued (relative to the overall market) industries growing faster than the economy and in companies growing more rapidly and achieving greater profitability than the average companies in those industries. If the industry is not well-understood by investors and if changes are occurring in the industry that let well-managed firms grow significantly faster than their competitors, all the better.

We believe the industrial distribution industry fits these criteria. This, we think, forms the basis for expecting the investment community to show greater interest in the industry.

Positioned for growth

First, industrial distributors seem well-positioned for above-average growth. The sale of parts and supplies for the repair, maintenance and operation (MRO) of capital equipment is the largest single source of revenues for most distributors. Over the last decade, expenditures for MRO supplies have increased somewhat more than industrial production. We think the anticipated reindustrialization of America should augment this trend as additional capital equipment is placed in service to help improve this nation's rate of productivity growth. Moreover, expenditures for MRO supplies tend to be more stable than those for new equipment. The installation of a new piece of equipment can often be postponed, but some maintenance activity is essential to keep machinery in running order and prevent costly downtime.

Within the MRO market, industrial dis-

LEADING PUBLICLY OWNED INDUSTRIAL DISTRIBUTORS

	Sales latest year (In millions)	Earnings per share Last 12 mos.	Earnings per share Growth last 5 yrs.	Price 7/15/81	Price-earnings ratio	Major products
Anixter Brothers	$ 343.4	$1.22	45.0%	19	15.6	Electrical Wire, Cable, CATV
Avnet, Inc.	1,266.8	4.10	18.1	48	11.7	Electronics, electrical
Bearings, Inc.	332.2	3.20	8.7	26	8.1	Bearings, power transmission
Bell Industries	200.4	1.63	26.0	16 ⅛	10.0	Electronics, plumbing, heating & air conditioning
A.M. Castle & Co.	291.3	1.86	27.8	16 ⅞	9.1	Metals
Columbia General Corp.	116.7	0.92	14.1	14 ½	15.8	Industrial MRO
W.W. Grainger, Inc.	782.6	3.48	17.3	39 ¼	11.3	Electrical
Hajoca Corp.	175.0	0.58	11.7	6 ⅜	11.0	Plumbing, heating & air conditioning
Hughes Supply, Inc.	176.1	3.09	46.9	22 ¾	7.4	Electrical, plumbing
Earle M. Jorgensen Co.	356.0	6.81	16.3	54 ¼	8.0	Metals
Lawson Products, Inc.	91.1	1.59	16.1	25 ¼	15.9	Industrial MRO
Noland Co.	267.4	1.28	6.4	11	8.6	Electrical, plumbing, heating & air conditioning
Premier Industrial Corp.	317.7	2.97	32.2	40 ¼	13.6	Industrial MRO, electronics
Pioneer-Standard Electronics, Inc.	94.7	1.37	20.0	15 ¾	11.5	Electronics
Vellen Corp.	29.0	1.38	45.2	13 ¾	10.0	Safety supplies

Note: While not all of the above are in the familiar hard-goods, MRO distribution markets, they qualify as distributors. These were selected because they top the list of salesmakers in distribution and demonstrate the breadth and potential of all distribution.

tributors provide the most efficient means of reaching the myriad users of MRO supplies. Their broad inventories of products and their ability to give fast service have enabled them to hold their share of the market in spite of intense competition from manufacturers selling direct.

Distributors also seem to be increasing their share of the original equipment market. This has occurred as many manufacturers have found the processing costs for small orders and the marketing costs for reaching smaller customers too burdensome, and this business could be more efficiently handled by the distributor.

Combining these two basic segments of the industrial distribution business, we find that the industry's sales volume has continued to outpace GNP. Over the last five years, for instance, according to data supplied by the Dept. of Commerce and INDUSTRIAL DISTRIBUTION, distributor sales volume rose 67% compared to 53% for GNP.

The value of professionalism

Even more important is a basic and continuing change taking place within the industry. Simply stated, the industry has discovered the value of professional management. Over the last decade, a number of larger companies have significantly increased their share of the market by using well-conceived strategies to allocate their basic resources—manpower, capital and expertise. These have often been expressed as "sophisticated marketing, real estate expertise, computerization, careful operating control, diligent purchasing practices and the ability to attract high-caliber personnel." In addition, many of the larger firms have more flexibility in methods of financing their operations. This is especially true of publicly owned firms who not only can raise funds from private investors, but who can use stock to make acquisitions to augment their internal growth.

It is important to note that a distributor need not be large to be successful or profitable, but he must know the position that he wants to occupy in the marketplace, and then provide the appropriate level of product inventory and service at competitive prices. He must take advantage of his strengths and correct his weaknesses.

We continue to believe the prospects are excellent for distributors that adopt professional management techniques. While many larger firms have achieved rapid growth in recent years, they still comprise a relatively small part of the industry. Those publicly owned firms, which have grown more rapidly than the industry during the last five years, still accounted for less than 5% of total U.S. industrial distribution sales last year. Their share is growing, though, and an increasing number of distributors have become large enough to attract the interest of larger investors. □

Corporate giants' interest in the vital, growing distribution industry isn't a recent phenomenon. Many saw the industry's potential early, among them:

- General Electric
- International Tel & Tel
- AMFAC, Inc.
- Avnet, Inc.
- Chemetron Corp.
- Crane Co.
- DoAll Co.
- Imperial Eastman Corp.
- Jones & Laughlin Steel
- Kaman Corp.
- Sterling Electronics Corp.
- Texas Instruments
- Westinghouse

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The advantages of Veelos provide just an indication of why you'll do your profitable best with the Manheim line. It's the broadest in the industry, including power transmission, conveyor and elevator belting in a wide range of types, sizes and styles—all in stock and ready for immediate delivery.

Want to know more? Why not write for our colorful new brochure for starters? Then we'll talk about some other good reasons you should take on Veelos and the rest of the Manheim line. Manheim Manufacturing & Belting Co., 311 W. Stiegel St., Manheim, PA 17545; tel. 717-665-2421.

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